ROLE OF SMALL SCALE INDUSTRIES IN INDIA'S EXPORT SINCE 1991

ABSTRACT
THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

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IN

ECONOMICS

By

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Abstract

The term 'Small Scale Industries' does not specify a homogenous entity and is distributed over a wide spectrum of industries. The SSI sector comprises small scale and ancillary industrial undertakings. The Small-Scale Units are further divided as Tiny units, Export oriented units, Small Scale Service and Business Enterprises (SSSBEs) and Women Enterprises. The SSI sector is a part of the larger Village and Small Industries (VSI) sector, which consists of modern small-scale industries and traditional small industries located in rural and urban areas.

Small Scale Industries have played an important role in the economic development of India. The small-scale industries have helped in generation of large-scale employment at lower capital cost, balanced regional development, equitable distribution of income and wealth and industrialisation of rural and backward areas. The SSI sector has played commendable role in exports from India.

The role of foreign trade in the process of economic development is widely recognised. Trade brings variety of static and dynamic benefits and thus increases the capacity for development. Economic history finds success stories of many countries, which were relatively underdeveloped at one time but became developed through trade.

Export promotion strategy, apart from promoting economic growth, entails various benefits to countries in the form of greater utilisation of plant capacity, specialisation in commodities of comparative advantage, increase in efficiency, economies of scale, widening of market, incentives of technological improvements, training of higher quality of labour and internally competitive management.

There are various historical evidences of export-oriented growth of different countries of the world. The experiences of Japan, Hong Kong, South Korea, Singapore and Taiwan suggest that a strong and viable small industrial sector is necessary for successful export oriented growth.

The Indian experience of small-scale industries has not been disappointing as far as the export potential is concerned. Since 1971-72, the small-scale industrial sector has grown at an impressive rate and its share in the national exports increased from 9.6 per cent in 1971-72 to 26.5 per cent in 1981-82 and further to 31.5 per cent in 1991-92. Despite small-scale industry sector's value contribution, stagnancy of our share in world trade at 0.6 to 0.8 per cent for more than two decades now, shows that in the absence of substantially positive conditions from the small-scale industries sector our share might have declined further to a figure of 0.3 per cent or 0.4 per cent of world trade. However, the small-scale sector was protected from both internal and external competition before 1991. And the sector over the years has emerged as an

important segment of the Indian economy. In the last five *decades the sector has made a significant contribution in the* process of growth and has emerged as a vibrant partner by consistently out performing the overall industry sector and the GDP growth.

After the economic liberalisation started in 1991, the environment surrounding small-scale industry changed dramatically. The protection enjoyed so far was drastically reduced through delicensing, reduction in excise and custom duty rates, and placement of several items on OGL list and by making credit worthiness as the criteria for credit disbursement. 'Small-Scale Industry faces severe competition from foreign firms. On the other hand, small-scale industry has been increasingly expected to act as an engine of growth of the national economy. In another words by making use of its flexible and innovative nature, small-scale industry is expected to work as a linkage and subcontracting industries or as an export-oriented industry'.

Objective of the Study: -

Our objective in this study is mainly to analyse the export performance of the small-scale industries sector during the period 1991-92 to 2002-03 with a view to identify the factors influencing the export performance of this sector. Within the framework of this broad objective, the specific objectives set out for the study are as follows:

- To analyse the export performance of small-scale industry sector during the period 1991-92 to 2002-03 in comparison to total exports from India.
- To identify the main problems confronting the small-scale industry exports, and
- To suggest measures to realise the full potential of exports from small-scale industry sector in the long run.

Hypothesis: -

In view of the above objectives following hypotheses are framed:

- The small-scale industry sector exports out performed the total exports from India in the post liberalisation period.
- The share of small-scale industry exports has increased after economic reforms of Indian economy.

Data Base and Methodology: -

The study is based on secondary sources of data covering mainly the period 1991-92 to 2002-03.Basic variables that were considered in this study are exports, production, employment, and number of units. The methodology applied is simple, analytical and involves calculation of percentages, arithmetical averages, simple growth rate and compound growth rate. Compound annual growth rates in case of small-scale industries have been calculated for production, employment, exports, and number of units during the period of study. This rate has also been calculated for total exports from India and exports of principal commodities both from small-scale industries and total exports of these commodities from India.

Plan of study: -

The study has been organised into six chapters including the current one. Second chapter looks into the concept and definition of small-scale industries in India. The same chapter concentrates on the growth and performance of this sector. It also makes a comparative analysis of small-scale industry sector with overall industry sector and large-scale industry sector.

Third chapter traces the growth of policies and programmes which have been formulated from time to time since independence to promote this sector. This chapter also deals with the important promotional agencies of the sector. Fourth chapter, which is the core chapter of our study, concentrates on the export performance of small-scale industry sector vis-à-vis the total export from India. It also deals with the export trend of principal commodities both from small-scale industry sector and total exports of these commodities from India. The second last chapter tries to find out the problems of small-scale industry exports from India and gives measures to promote the exports from this sector.

The final chapter summarises the study and derives conclusions.

Conclusion: -

The study shows that small-scale industry sector is an important segment of the Indian economy. The small-scale industry sector has witnessed significant growth over the years in terms of the number of units, value of production, employment generation and exports. Further, the small-scale industry sector has grown a much steadier rate than the overall industry sector over the period. Moreover, the labour productivity in the small-scale industry sector was lower than the large-scale sector. But the capital productivity was higher in the small-scale industry sector than the large-scale sector. In addition to this the small-scale industry sector fared much better in terms of net value added, fixed capital and invested capital. The small-scale industry sector has played a crucial role in providing large-scale employment opportunities. These industries have also been helpful in building a wide entrepreneurial base and dispersal of industries in rural and backward areas. So their role in providing equitable development is commendable.

The SSI sector has shown resilience in spite of heavy competition over the years and recession in some of the years. The sector has grown from strength to strength and across the length and breadth of country. Thus the small-scale industry sector has shown much better performance than the overall industry sector.

In the last five decades the sector has made significant contribution in the process of growth and has emerged as a vibrant sector by continuously outperforming the overall industry sector. Due to several policy initiatives and policy support measures taken by the government from time to time, the sector has contributed to the overall growth of the gross domestic product as well as in terms of employment generation and export. Performance of the small-scale sector, which forms a part of total industrial sector, therefore, has direct impact on the growth of the national economy. Small Scale Enterprises has vast potential and has recognized as an engine of growth for the new millennium. Currently, the sector occupies a significant share in total exports of the country.

The small-scale industry sector has achieved a reasonable growth in terms of broad characteristics like the number of units, production, employment, and exports. Production of this sector has increased steadily over the period of 1991-92 to 2002-03. It increased to Rs. 742021 crore in 2002-03 from Rs. 178699 crore in 1991-92, registering a compound annual growth rate of 13.82 per cent. The number of small-scale units was 20.82 lakh in 1991-92, which rose to 35.72 lakh in 2002-03 recording a compound annual growth rate of 5.03 per cent. Employment in the sector was 129.80

lakh persons in 1991-92, which grew to 199.65 lakh persons in 2002-03 registering a compound growth rate of 3.99 per cent per annum.

The analysis of export performance of the aggregate level suggests that the small-scale industry exports increased at a compound growth rate of 18.03 per cent per annum for the period 1991-92 to 2002-03. As against this the overall exports from India increased at a compound growth rate of 17.32 per cent per annum during the same period. Consequently, the share of small-scale industry in total exports from India increased from 31.5 per cent in 1991-92 to 33.7 per cent in 2002-03. This is also true when we compare the annual average growth rate of small-scale industry sector exports vis-à-vis the total exports from India during 1991-92 to 2002-03. Total exports increased at an annual average growth rate of 17.7 per cent whereas small-scale industry sector exports grew at the rate of 18.6 per cent during the same period.

Thus, the rate of growth for total exports during the period of study was marginally lower than the small-scale industry sector export. But one of the disturbing features of the small-scale industry sector export was that the share of the sector in total exports remained stagnant hovering between 32 to 36 per cent during the study period. The share averaged at 34.1 per cent during the period of study.

The analysis of composition of small-scale industry sector reveals that non-traditional goods exports contributed more to the total small-scale industry sector exports than the traditional goods exports. The share of non-traditional goods in total small-scale industry sector exports was 95.67 per cent in 1991-92, which rose to 96.94 per cent in 2002-03. Moreover, within the small-scale industry sector six items alone accounted for almost 83 per cent of total exports in 2002-03.

During the post-liberalisation period i.e. after 1991 in India, the share of small scale industry sector in total exports of basic chemicals, pharmaceutical and cosmetics, plastic products, finished leather and leather products, declined by 10.49, 3.35 and 10.43 per cent respectively. Within non-traditional product group the share of small scale industry sector in total exports of woollen garments and knitwear, chemicals and allied products, marine products, processed tobacco, snuff and bidi, processed food and engineering goods increased by 60, 30.65, 18.58, 16.04, 5.01 and 2.58 per cent respectively during 2002-03 over 1992-93. In traditional segment, the share of small scale industry sector exports in total exports of spices, spices oils, oleoresins, cashew kernel and cashew nutshell liquid and lac increased by 18.78, 14.24, and 2.09 per cent respectively during the same period.

The share of small-scale industry sector exports of non-traditional product group, in total exports of this product group declined by 10.83 per cent during 1992-93 to 2002-03. It was 54.17 per cent in 1992-93, which declined to 43.34 per cent in 2002-03.

Consequently, the share of small-scale industry sector exports in total exports of principal commodities has declined by 10.62 per cent during 2002-03 over 1992-93. This was 54.44 per cent in 1992-93, which declined to 43.82 per cent in 2002-03.

Exports from small-scale industry sector of selected principal commodities registered a compound growth rate of 17.07 per cent per annum against the total exports growth of these commodities at 19.64 per cent per annum during the period of study.

Though at aggregate level the small-scale industry sector exports performed well in comparison to the total exports from India. However, the analysis of principal commodity exports from the small-scale industry sector vis-à-vis total exports has not done well during the post-liberalisation period. This happened due to the problems which small-scale industry sector faces. The main problems of small-scale industry exports are as follows: -

i) Use of low level of technology
ii) Inadequate credit facilities
iii) Infrastructural bottlenecks
iv) Lack of promotional activities

v) Marketing problems
vi) Managerial constraints
vii) Size constraints
viii) WTO related problems

However, this is not true that, the small-scale industry sector suffers from weaknesses only it has inherent strengths too. It can face the challenges cropped up in the new economic framework. Small-scale industrial units unlike the big units having hierarchical management and separation of ownership are inherently flexible to react quickly to market signals and changing taste pattern. This makes the small units more innovative and open to new ideas. Small-scale industrial units have lower overheads, which help them to reduce the cost of production. In addition, these units also interact more closely with their customers to be in touch with changing taste and preferences.

The small-scale industry sector produces a wide range of products from simple consumer goods to sophisticated and hi-tech products. There are items in which the sector can make mark in the world market. They are engineering goods, readymade garments, basic chemicals, pharmaceuticals and cosmetics, plastic products, processed foods, leather products, electronic goods, marine products etc.

Taking following measures can expand exports from the small-scale industry sector:

- Technology up-gradation and modernisation
- Expansion of credit facilities
- Removal of Infrastructural and production bottlenecks
- Marketing and promotional activities
- Promotion of research and development
- Improvement in quality of product and brand building
- Promotion of agglomeration and industrial clusters
- Removal of procedural hassles

In brief, we may conclude that future prospects for exports from small-scale industry sector will depend upon the competitiveness of this sector in the world market. The sector has to improve quality of its product up to the global standards and reduce the cost of production by enhancing the productivity with use of modern technology. Small-scale industry sector has to adopt aggressive sales and marketing techniques for making a place in the world export market.

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CERTIFICATE

This is to certify that **Mr. Aftab Alam**, Enrolment No. Z-1027 worked under my supervision for his Ph.D. thesis entitled "***Role of Small Scale Industries in India's Export since 1991***". It is an original research work and has been written under my direct supervision.

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I must be failing in my duty if I do not express my deepest gratitude to my father and mother who remain an eternal source of inspiration and encouragement in every sphere of life, which leads me to success. I am also thankful to other family members for their love and encouragement in my academic endeavour.

Aftab Alam
(AFTAB ALAM)

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LIST OF ACRONYMS

ANC	:	Ancillary Undertakings
APCTT	:	Asian and Pacific Centre for Transfer of Technology
ASI	:	Annual Survey of Industries
ASICC	:	Annual Survey of Industries Commodity Classification
CFTCs	:	Central Footwear Training Centres
CSO	:	Central Statistical Organisation
DEPB	:	Duty Entitlement Pass Book
DGFT	:	Directorate General for Foreign Trade
EOU	:	Export Oriented Units
EPZs	:	Export Processing Zones
GDP	:	Gross Domestic product
IDBI	:	Industrial Development Bank of India
KVIC	:	Khadi and Village Industries Commission
NABARD	:	National Bank For Agriculture and Rural Development
NEF	:	National Equity Fund
NPAs	:	Non-Performing Assets
NSIC	:	National Small Industries Corporation
OGL	:	Open General License
PPDCs	:	Product Cum Process Development Centres
QRs	:	Quantitative Restrictions
R&D	:	Research and Development
RBI	:	Reserve Bank of India
SENET	:	Small Enterprise Information & Resources

		Network
SFCs	:	State Financial Corporations
SIDBI	:	Small Industries Development Bank of India
SIDO	:	Small Industries Development Organisation
SMEs	:	Small and Medium Enterprises
SSEs	:	Small Scale Enterprises
SSI	:	Small Scale Industry
SSSBE	:	Small Scale Service and Business Enterprise
SSSE	:	Small Scale Service Establishment
STC	:	State Trading Corporation
TBSE	:	Technology Bureau for Small Enterprises
TINY	:	Tiny Units
VSI	:	Village and Small Industry
WE	:	Women's Enterprises
WTO	:	World Trade Organisation

Chapter -I

INTRODUCTION

1.1 Introduction: -

The term 'Small Scale Industries' does not specify a homogenous entity and is distributed over a wide spectrum of industries. The SSI sector comprises small scale and ancillary industrial undertakings. The small-scale units are further divided as tiny units, Export oriented units, Small Scale Service and Business Enterprises (SSSBEs) and Women Enterprises. The SSI sector is a part of the larger Village and Small Industries (VSI) sector, which consists of modern small-scale industries and traditional small industries located in rural and urban areas.

Small Scale Industries have played an important role in the economic development of India. The small-scale industries have helped in generation of large-scale employment at lower capital cost, balanced regional development, equitable distribution of income and wealth and industrialisation of rural and backward areas. The SSI sector has played commendable role in exports from India.

1.2 Importance of Study: -

The role of foreign trade in the process of economic development is widely recognised. Trade brings variety of static and dynamic benefits and thus increases the capacity for development. Economic history finds success stories of many countries, which were relatively underdeveloped at one time but became developed through trade.

Economic development is a multidimensional process involving the reorganisation and reorientation of entire economic and social system. Though it is a complex process, influenced by both economic and non-economic factors, yet different economic factors like capital stock, labour skills, technology, capital output ratio, agricultural surpluses and foreign trade etc. largely determine the pace and pattern of development process of countries. Foreign trade of goods, services and assets has been termed as a dynamic factor for economic development and one of the most powerful linkages among the various economies of world.[1]

Export promotion strategy, apart from promoting economic growth, entails various benefits to countries in the form of greater utilisation of plant capacity, specialisation in commodities of comparative advantage, increase in efficiency, economies of scale, widening of market, incentives of technological improvements, training of higher quality of labour and internally competitive management. Exports increase social marginal productivities and increase employment. In fact expansion of exports may well be described as an integral part of development process, neglect of which can only be peril of development itself.[2]

There are various historical evidences of export-oriented growth of different countries of the world. According to Chen (1986), "the experiences of Japan, Hong Kong, South Korea, Singapore and Taiwan suggest that a strong and viable small industrial sector is necessary for successful export oriented growth. In the early stages of manufactured export growth, small-scale industry can play a significant role since products are labour intensive, there are rapid changes in demand, due in part to world economic fluctuations, and output growth is demand driven. Small firms have the advantage of law overheads and the capacity to respond quickly to changing conditions. There is a growing international preference for high quality personalized items, often skill-intensive, in place of mass-produced ones. Such products require flexibility, which often gives the smaller firm the advantage."[3]

In Beng's view (1988), "a reliable supporting sector has been important in attracting high technology foreign investment to Singapore. Otherwise the foreign firms either would have to bring in their own subcontractors or import foreign workers, neither of which was in line with the long-term objectives of Government policy. In Japan, and more recently in Hong Kong, Singapore, Taiwan, and elsewhere, subcontracting with small producers has allowed the export sector to keep costs down flexibility high. Small firms' absorptive capacity can also be an important determinant of technology transfer, in Singapore, for instance, a major channel involves skilled personnel, previously trained by a multinational company, who then take up employment in smaller local firms or start their own."[4]

The Indian experience of small-scale industries has not been disappointing as far as the export potential is concerned.

But as with the recent Asian developing countries just mentioned the continuing success of this sector will depend on their ability to move into technologically more advanced and sophisticated product lines.

As we know, until 1991, the Indian economy was practically isolated from the world economy, with stress being on indigenous production of manufactured goods and the domestic industries being protected from both external and internal competition. The protection from external competition was through quantitative restriction on imports as well as high tariff barriers and that from internal competition through a system of licensing and control. In this background entire industrial sector became inward looking and less attention being paid to export promotion. The Government of India pursued the inward oriented trade policy till 1991. While building of a highly diversified industrial structure, it resulted in inadequate attention to up-gradation of products and process of technologies, research and development and cost reduction resulting in lack of competitiveness. This was responsible for gradual reduction in India's share of world trade from almost 2 per cent at the time of independence to about 0.6 per cent in 1991.[5]

Since 1971-72, the small-scale industrial sector has grown at an impressive rate and its share in the national exports increased from 9.6 per cent in 1971-72 to 26.5 per cent in 1981-82 and further to 31.5 per cent in 1991-92. Despite small-scale industry sector's value contribution, stagnancy of our share in world trade at 0.6 to 0.8 per cent for more than two decades now, shows that in the absence of substantially positive conditions from the small-scale industries sector our share might have declined further to a figure of 0.3 per cent or 0.4 per cent of world trade.[6]

However, the small-scale sector was protected from both internal and external competition before 1991. And the sector over the years has emerged as an important segment of the Indian economy. In the last five decades the sector has made a significant contribution in the process of growth and has emerged as a vibrant partner by consistently out performing the overall industry sector and the GDP growth.

After the economic liberalisation started in 1991, the environment surrounding small-scale industry changed dramatically. The protection enjoyed so far was drastically reduced through delicensing, reduction in excise and custom duty rates, and placement of several items on OGL list and by making credit worthiness as the criteria for credit disbursement. "Small-scale industry faces severe competition from foreign firms. On the other hand, small-scale industry has been increasingly expected to act as an engine of growth of the national economy. In other words by making use of its flexible and innovative nature, small-scale industry is expected to work as a linkage and subcontracting industries or as an export oriented industry". [7]

Against this background we have studied the export performance of small-scale industry sector vis-à-vis the total exports from India. And, have tried to analyse the problems of small-scale industry exports in the current economic environment. Further, we have tried to suggest different measures for promoting small-scale industry exports that have policy implications.

1.3 Survey of Literature: -

An attempt is made to review briefly the important studies to highlight the importance of our study.

B.D. Jethra (2000)[8] in his study has found that there is a vast potential to increase exports from the small-scale industries sector but this would require well directed and concerted efforts on the part of Government, the industry associations and the entrepreneurs to overcome the major problem and constraints being faced and capitalise on the inherent strengths which the country possesses in plenty. There is doubt that this is well within our capability and we can look forward to a sustained and very healthy growth in exports from the small-scale industries sector in the years to come.

K.R. Pandit (1999)[9] attempts to analyse the impact of trade policy reform on small-scale industries exports. The author first discusses briefly trade policy prior to reforms i.e. before 1991 and then gives a brief account of post 1991 policy changes. The recent trade performance in the post 1991 scenario was analysed in terms of India's total exports vis-à-vis the world exports and then export performance of small-scale industry sector compared with total export from the country. Further, export performance of small-scale industry sector is analysed in terms of selected commodities during 1992-93 to 1997-98. Then the paper evaluates the impact of globalisation on small-scale industry's domestic market and small-scale industry exports.

In his analysis the author has found that the changing international economic environment and the resultant pressure on the developing economies to integrate themselves with the global market, have made it virtually imperative for the Indian small-scale industries to equip themselves to face greater competition in the export market besides domestic markets. Further, it is also found that most of the small-scale industries use outdated technologies in manufacturing processes and designs. The quality level and quality consistency are well below international standards. Small-scale industries realise that for survival in face of increasing global competition, they must up-grade their processes, products and adopt quality systems that are of internationally acceptable quality certification for overseas buyers. Thus up-grading the product quality is considered very important across the industry groups both for domestic and export markets. The author anticipates that by and large, the Indian industry is striving and is expected to withstand the competition on its own merit. However, for facilitating growth in exports, the industry needs to be supported by proactive policies of the Government.

J. Chandra Prasad and V. Narayana Rao (1996)[10] in their study have observed that finance stands as a major bottleneck in the way of export activity of small-scale industry sector. Some units though produce exports potential items could not tap the market due to lack of finance and the consequent export promotion handicap.

Abid Hussain Committee (1997)[11] on small enterprises examined and suggested institutional arrangements and policies and programmes for meeting long term and short term requirement of the small enterprises. The committee found that the reservation policy of specific products for exclusive manufacture by small-scale industry had not served much purpose as most industrialisation had occurred in items not reserved for small-scale industries. Moreover, it had resulted in low efficiency and productivity and restricted the expansion of and exports potential of important industries, viz. light engineering, food processing, textiles and others. Credit to small-scale industry had become more expensive after interest rate deregulation. Institution and regulatory policy responsible for technical assistance, human resources development, industrial standardisation, etc., expected to play a pro-active role in halting technological obsolescence (particularly among tiny units) did not prove effective.

Suni George J. (2000) [12] in his study of 'Small-Scale Industries and Economic Liberalisation' concluded that all is not well with small-scale industries even today. Production policy has led small-scale industries to remain small to become more inefficient with poor product quality. It is not production but competition should be the rule of the day. Efficient management, strong marketing strategy to cope with international marketing standards, production of world-class products with top quality, alone can infuse a greater degree of competition in the small-scale industry sector. The

Government should provide infrastructure at reasonable cost and in small-scale sector where we have traditional skills in finishing and manufacturing, Government must liberally allow import of raw materials to attract foreign investors who can set up comparatively low cost production base in India.

D.D. Mali (1998)[13] in his study has observed that small and medium enterprises and micro enterprises have to face increasing competition in the current scenario "quality will hold the key" and along with it they have to specifically improve in the areas of management capability, marketing, product diversification, technological up-gradation, infrastructure development, attitudinal changes among officers of banks and financial institution for smooth credit flow to the small and medium enterprises and micro enterprises. Moreover, new small and medium enterprises may have to move from slow growth areas to high growth area and they have to form strategic alliance with entrepreneurs of neighbouring countries.

Sebastian Morris (2001) [14] in his study 'Small Firms and Exports' has observed that in the current context of liberalising economy that is attempting to industrialise within the spaces provided by world capitalist system, export of manufactured goods is the key to industrial transformation and especially so for a resource-scarce and densely populated economy like India. And then he stressed that there is vast potential in manufactured exports, the small industries would have to play the key role in this transformation. It is due to schism in the labour market and the industrial structure that it has spawned. It is the small firms that have access to competitive labour market, where labour is docile and is available at market wages. For large firms access to this labour is indirect via sub contracting, job working, contract production etc. Further, he found that there is a need to increase the scale of their output by investing more and improvement in quality for expanding export from the small firms. Therefore, the most important thing that Government can do would be to provide more working capital.

Yuko Nikaido (2004) [15] in his paper deals with some policy implications for the small-scale industry sector. As with the onset of liberalisation in 1991, small-scale industry was recognised as a growth engine of the economy and the Government urged to make the attendant policy change. He measures the technical efficiency of small-scale industry using a stochastic production frontier model. It is interesting to know that agglomeration has a positive effect on the technical efficiency. He concluded that the Government had better promote small-scale industry by promoting agglomeration economies, keeping infrastructure in good condition and supporting technological up-grading etc.

T.A. Bhavani (2002) [16] in his article focuses on the ongoing changes in the business environment and the possible ways of improving competitive strength and commercial viability of Indian small-scale units in the changing scenario. His analysis indicates that while liberalisation has exposed all industrial units including small units to market competition to a greater extent, globalisation intensifies market competition by allowing imports and Multinational Corporation into India relatively easily. In order to withstand competition, Indian industrial units especially the smaller ones need to improve their productivity and quality to reduce costs and to go for higher performance of products and better services. This requires substantial improvement in various dimensions of the technology namely, transformation (mechanisation), organisation and information. Small-scale units not only need to up-grade their technologies immediately but should also keep track of the changes in technologies.

Further, he suggests that Government should encourage industry associations and various private organisations to play a role in the technological upliftment of small-scale units rather than itself trying to do every thing ineffectively as it was doing so far. Besides this, industry and Government agencies can play a significant role in educating small units about the changes in the business environment and the necessity of going in for technological up-gradation.

C.S. Prasad (2004) [17] in his study observes that competitiveness is the name of the hottest game now a day. More competitive countries tend to grow faster. As India has already entered the new millennium where the order of the day is increasing economic liberalisation across the borders and growing globalisation of world economy under WTO regime, hence the small-scale sector is going to face major challenges in the form of intensified competition, both domestic and external. For its existence it has to be competitive otherwise with present levels of technology in use and Infrastructural and environmental constraints, it may find itself in a fierce battle for survival. Both the product and producers need international exposure.

Further, he suggests that the sector has vast potential of being developed into a major economic player but there is need for change in strategy adopted so far for its survival and growth. This change in strategy calls for a shift from *individual industry to cluster* approach, linkages between large and small units, use of state-of-art technology, efficient system of delivery of input and output with full support and active involvement of financial institutions, associations and the Government. It is also very necessary to adopt electronic commerce, which has brought a revolution in the field of marketing strategy.

1.4 Objective of the Study: -

Our objective in this study is mainly to analyse the export performance of the small-scale industries sector during the period 1991-92 to 2002-03 with a view to identify the factors influencing the export performance of this sector. Within the framework of this broad objective, the specific objectives set out for the study are as follows:

- To analyse the export performance of small-scale industry sector during the period 1991-92 to 2002-03 in comparison to total exports from India.
- To identify the main problems confronting the small-scale industry exports, and
- To suggest measures to realise the full potential of exports from small-scale industry sector in the long run.

1.5 Hypothesis: -

In view of the above objectives following hypotheses are framed:

- The small-scale industry sector exports out performed the total exports from India in the post liberalisation period.

- The share of small-scale industry exports has increased after economic reforms of Indian economy.

1.6 Data Base and Methodology: -

The study is based on secondary sources of data covering mainly the period 1991-92 to 2002-03 which was obtained from the following sources:

- SIDBI Report on Small Scale Industries Sector, 2001 Small Industries Development Bank of India, Lucknow.
- Economic Survey, 2003-03, Ministry of Finance, GOI, New Delhi.
- Handbook of Industrial Policy and Statistics 2001, Office of the Economic Adviser, Ministry of Commerce and Industry, GOI, New Delhi.
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Due acknowledgement has been given to them at appropriate places.

For most part of the analysis, the time period is restricted to 1991-92 to 2002-03. Further, the year 1991 was not taken due to non-availability of data regarding total exports of some principal commodities, while analysing the commodity composition of small-scale industry exports vis-à-vis the total exports of these commodities. Moreover, while analysing the commodity composition of small-scale industry and total exports, the data non-availability regarding rayon and synthetic product for the year 1992-93 and electronic and computer software for the year 1992-93 to 1998-99 was another constraint.

Basic variables that were considered in this study are exports, production, employment, and number of units. The methodology applied is simple, analytical and involves calculation of percentages, arithmetical averages, simple growth rate and compound growth rate.

Compound annual growth rates in case of small-scale industries have been calculated for production, employment, exports, and number of units during the period of study. This rate has also been calculated for total exports from India and exports of principal commodities both from small-scale industries and total exports of these commodities from India.

Simple growth rate show the progress or otherwise on year-to-year basis. Simple growth rate is calculated using the following formula:

$$SGR = \frac{(Y_t) - (Y_{t-1})}{(Y_{t-1})} \times 100$$

Where, SGR – Simple Growth Rate
Y_t – Values of Current Year
Y_{t-1} – Values of Previous Year

The Compound Annual Growth Rate (CAGR) measures an annual growth over a period of time. This measure is a constant percentage rate at which a variable would grow or contract year on year to reach its current value. The CAGR is more representative measure of annual growth over a number of years. The CAGR is calculated by using the following formula:

$$CAGR = \left[\left(\frac{X_t}{X_o} \right)^{1/t} - 1 \right] \times 100$$

Where, CAGR – Compound Annual Growth Rate
X_0 – Starting Year Value
X_t – Final Year Value
t – Number of Years included in the calculation.

1.7 Plan of study: -

The study has been organised into six chapters including the current one. Second chapter looks into the concept and definition of small-scale industries in India. The same chapter concentrates on the growth and performance of this sector. It also makes a comparative analysis of small-scale industry sector with overall industry sector and large-scale industry sector.

Third chapter traces the growth of policies and programmes which have been formulated from time to time since independence to promote this sector. This chapter also deals with the important promotional agencies of the sector. Fourth chapter, which is the core chapter of our study, concentrates on the export performance of small-scale industry sector vis-à-vis the total export from India. It also deals with the export trend of principal commodities both from small-scale industry sector and total exports of these commodities from India. The second last chapter tries to find out the problems of small-scale industry exports from India and gives measures to promote the exports from this sector. The final chapter summarises the study and derives conclusions.

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Chapter -II

Small Scale Industries: An Indian Experience

2.1 Introduction: -

The phenomenal growth of industries in the small-scale sector has been striking feature in the economic development of the country since independence. It has contributed to the overall growth or the Gross Domestic Product. And it has witnessed significant growth over the years in terms of the number of units, value of production, employment generation and value of exports. It also holds out great potential for further expansion in the years to come.

This chapter traces the definition of small-scale industries and its concept in India since 1950. Further, the chapter deals with the major characteristics of small-scale industries viz. production, employment, export and number of units etc. and state-wise profile of small-scale industries. The operational efficiency, investment and comparative growth analysis of small-scale industries sector with large-scale sector are discussed later. In the second last section, features of SSI sector are listed in the light of Third All India Census of Small Scale Industries. Finally, the last section summarises the main conclusion of this chapter.

2.2 Concept of Small Scale Industries: -

The spectrum of industries in India extends from the organized large and medium industries to modern small-scale industries and unorganised traditional industries. The modern Small Scale sector is similar to large and medium industries sector in terms of technology in use, production facilities, capital intensity and labour intensity etc. while traditional industries include segments like handlooms, khadi and village industries, handicrafts, sericulture and coir etc.

The small-scale sector is a part of the larger village and small industries (VSI) sector, which consists of modern small-scale industries and unorganised traditional small industries located in rural as well as urban areas.

They have been divided into different sub-sectors for the purpose of administering assistance programmes and specialized institutions have been created to look after each of sub-sectors at national level.

The sub-sectors of the village and small industries (VSI) and the concerned agencies are given in the following table.

Table – 2.1

Sub-Sectors of the Village and Small Industries Sector in India

Sub-sector	Implementing Agencies
1. Khadi & Village Industries	KVIC (KVI Boards in States)
2. Handlooms	All India Handloom Boards, DC Handloom
3. Handicrafts	All India Handicraft Boards, DC Handicraft
4. Sericulture	Central silk Board
5. Coir	Coir Board
6. Power Looms	Textile Commissioner
7. SSI	SSI Board (DC-SSI)

Source: - "Report on the second all India census of small-scale industrial unit", Development Commissioner – SSI, Ministry of Industry, Government of India, Nirman Bhawan, New Delhi, August 1992, pp. 1-2 (registered upto 31st March 1988)

Small-Scale Industries were first defined in 1950 on the basis of twin criteria of gross investment in fixed assets and workforce. The workforce criterion was changed from a per day basis to a per shift basis in 1958, and finally dropped from the definition of small-scale industries in 1960.

Since 1966, the original value of the plant and machinery has been the sole criterion for defining small-scale industries in India. Investment in land and buildings, testing equipment, anti-pollution measure etc. is not taken into account while defining small-scale industries.

The investment limit is revised from time to time to accommodate the changes in the price indices, emerging needs of the industries for additional investments in machinery/laboratory equipment etc for modernization, technology upgradation, product standardization, pollution control equipment etc., besides providing greater export thrust and other considerations of protections to small-scale industries.

The small-scale sector is currently defined in terms of investment in plant and machinery. However, in the fifties the definition was both employment as well as investment based. In a capital scare economy, it was felt that the SSI sector should be defined in terms of investment.

The changes made in the definition of small-scale industry and related sub-sectors within the SSI sector since 1950 are summarized below in the table 2.2;

The conceptual and legal framework for small scale and ancillary undertaking is derived from the industries (Development and Regulation) Act, 1951, section 11B of the Act specifies the general requirements that are to be complied with by the small scale units.

The Industries (Development and Regulation) (IDR) Act, 1951 specifically refers to only two categories of small-scale sector.

- Small Scale Industrial Undertaking
- Ancillary Industrial Undertaking

Over the years, however, some sub-sectors have been identified within the overall small-scale sector. These are:

*Tiny Enterprises (TINY)

* Women's Enterprises (WE)

* Export Oriented Units (EOU)

* Small Scale Service and Business Enterprises (SSSBEs)

Table: - 2.2

Norms for Definitions of SSI

Year	SSI	ANC	TINY	EOU	SSSE	SSSBE
1950	Gross investment in fixed assets; not exceeding Re. 0.5 million	Did not exist	Did not exist	Did not exist	Did not exist	Did not exist
1958	Gross investment in fixed assets less than Re. 0.5 million	-	-	-	-	-
1959	Gross investment in fixed assets value of machinery(original)	-	-	-	-	-
1960	Gross investment in fixed assets value up to Re. 0.5 million	Value of gross fixed assets up to Re.1 million	-	-	-	-
Original value of Plants and Machinery only						
1966	Up to Re. 0.75 million	Up to Re. 1 million	-	-	-	-
1975	Up to Re. 1 million	Up to Re. 1.5 million	-	-	-	-
1977	Up to Re. 1 million	Up to Re. 1.5 million	Up to Re.0.1 million*	-	-	-
1980	Up to Rs. 2 million	Up to Rs. 2.5 million	Up to Re. 0.2 million**	-	-	-
1985	Up to Rs. 3.5 million	Up to Rs. 4.5 million	Up to Re. 0.2 million***	-	Up to Re. 0.2 million***	-
1991	Up to Rs.6 million	Up to Rs. 7.5 million	Up to Re. 0.5 million@	Up to Rs. 7.5 million	(b)	Up to Re. 0.5 million @
1997	Up to Rs. 30 million	Up to Rs. 30 million	Up to Rs. 2.5 million	Up to Rs. 30 million	-	Up to Re. 0.5 million
1999	Up to Rs. 10 million	Up to Rs. 10 million	Up to Rs. 2.5 million	Up to Rs. 10 million	-	Up to Re. 0.5 million
2001	Up to Rs. 10 million	Up to Rs. 10 million	Up to Rs. 2.5 million	Up to Rs. 10 million	-	Up to Re. 1 million

* Units located in rural areas/ towns with a maximum population of 50000 (as per the 1971 census),

** Units located in rural areas. Towns with a maximum population of 50000 (as per 1971 census)

*** Units located in rural areas and towns with a maximum population of up to 0.5 million (as per the 1981 census),

@ The location specific condition was withdrawn.,

(b) The SSSEs classification was suspended in 1991 and replaced by the term SSSBEs.

Notes: SSI – Small Scale Industry, ANC – Ancillary Industry, TINY – Tiny Unit, EOU – Export Oriented Unit, SSSE – Small Scale Service Establishemtn, SSSBE – Small Scalle Service and Business (industry related)Enterprise.

Source: - SIDBI (2002): SIDBI Report on Small Scale Industries Sector 2001, Lucknow, Annex. 2.1 p. 195

In other words, the small-scale sector comprises small-scale industries (SSIs), ancillary undertakings (ANC), tiny units (TINY), export oriented units (EOU), women enterprises (WE) and small scale service and business (industries related) enterprises (SSSBEs).

The above mentioned segmentation within the SSI sector has been undertaken at different points of time in order to;[1]

- Facilitate and boost the growth of SSIs in the private sector;
- Promote SSIs in line with social and economic policies of the country;
- Encourage technology upgradation among existing units;
- Accord focused attention to the needs of tiny units;
- Focus on the development of women entrepreneurship;
- Create broader opportunities for SSIs related service and business enterprises;
- Provide a thrust to exports.

The different sub-sectors of the SSI sector are broadly defined as follows; [2]

Small Scale Industrial Undertaking: -

An industrial undertaking in which the investment in plant and machinery, whether held on ownership terms or on lease/hire purchase basis, does not exceed Rs. 10 million is regarded as a small-scale industrial undertaking. However, the limit for the units in select products of knitwear and hand tools is allowed up to Rs. 50 million. An SSI unit cannot be controlled or owned or be a subsidiary of any other industrial undertaking.

Ancillary Industrial Undertaking: -

An ancillary unit has been defined as "an industrial undertaking which is engaged or is proposed to be engaged in the manufacture of parts, components, sub-assemblies, tooling or intermediates, or the rendering of services and undertaking supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be, to one or more industrial undertakings and whose investment in fixed assets in plant and machinery whether held on ownership terms or on lease or on hire purchase does not exceed Rs. 10 million."

Tiny Units: -

The concepts of tiny units was introduced in 1977 as referring to those units with an investment ceiling in plant and machinery up to Re 0.1 million and located in villages and towns with population of less than 50,000. Presently, a manufacturing enterprise is treated as a tiny unit in which investment in plant and machinery does not exceed Rs. 2.5 million, irrespective of the location of the unit.

Women Entrepreneurs' Enterprise: -

A women entrepreneurs enterprise is termed as an SSI unit/ industry related service or business enterprise, managed by one or more women entrepreneurs in proprietary concerns, or in which she/they individually or jointly have a share capital or not less than 51 per cent as partners/ share holders/directors of private limited companies/ members of a co-operative society.

Small Scale Service and Business (Industry related) Enterprise: -

In the year 1985, the concept of small-scale service establishment (SSSE) was introduced. In 1991 it was merged with the concept of small scale service and business (industry related) enterprises. At present, and industry related service/business enterprise with an investment up to Rs. 1 *million in fixed assets excluding land and building, is treated* as small scale service and business (industry related) enterprise (SSSBE).

Export-Oriented Units: -

The concept of export-oriented units (EOU) was introduced among small-scale industries in the year 1991. A unit with an obligation to export at least 30 per cent of its annual production by the end of the third year of commencement of production and having an investment ceiling of Rs. 10 million prescribed for small scale undertakings is termed as an export oriented SSI unit.

2.3 Growth of Small Scale Industry Sector: -

The small-scale industry sector plays a vital role in the growth of the country. It has acquired a prominent place in the socio-economic development of the country during the last 55 years. The SSI sector is highly vibrant and dynamic sector of the Indian economy. According to a report, "currently this sector accounts for about 95 per cent of the industrial units and is contributing about 40 per cent of value addition in the manufacturing sector, nearly 80 per cent manufacturing employment and about 35 per cent of exports. More than 32 lakh units are spread all over the country producing 7,500 items and providing employment to more than 178 lakh persons". [3]

The growth of the sector can be gauged from the increase in number of units, production, employment and exports over the period of time in this sector. The time series data in the major characteristics of the sector is given below and can be analysed from the given table 2.3.

The production of this sector has increased steadily over the period of 1991-92 to 2002-03. A similar trend has been noticed in case of number of small-scale industry units, employment and exports over the same period. The production of the sector was Rs.178699 crore in the year 1991-92 and this rose significantly to Rs.742021 crore in 2002-03. However, the percentage increase in production calculated for each year over the previous year has shown a fluctuating trend during

Table: - 2.3

Growth of SSI sector in India: 1991-92 to 2002-03

Year	Production (Rs. Crore) at current prices	% Increase in production	Employ ment (Nos.in Lakh)	% Increase in Employment	Exports (Rs.Crore)	% Increase in Export	Export as % of Production	Number of Units (Lakhs)	% Increase in No. of Units
1991-92	178699	-	129.8	-	13883	-	7.77	20.82	-
1992-93	209300	17.12	134.06	3.28	17784	28.10	8.50	22.46	7.88
1993-94	241648	15.46	139.38	3.97	25307	42.30	10.47	23.88	6.32
1994-95	298886	23.69	146.56	5.15	29068	14.86	9.72	25.71	7.66
1995-96	362656	21.34	152.61	4.13	36470	25.46	10.05	26.58	3.38
1996-97	411858	13.57	160.00	4.84	39248	7.62	9.53	28.03	5.46
1997-98	462641	12.33	167.20	4.50	44442	13.23	9.60	29.44	5.03
1998-99	520650	12.54	171.58	2.62	48979	10.21	9.40	30.80	4.62
1999-00	572887	10.03	178.50	4.03	54200	10.66	9.46	32.12	4.29
2000-01	639024	11.54	185.64	4.00	69797	28.78	10.92	33.12	3.11
2001-02	690316	8.03	192.23	3.55	71244	2.10	10.32	34.42	3.93
2002-03	742021	7.49	199.65	3.85	86012	20.73	11.59	35.72	3.78

Source: 1.http://www.smallindustryindia.com/ssiindia//statistics/ssidata.htm, Accessed August 2, 2004 study period. It was 17.12% in 1992-93 and increased to 23.69% in 1994-95 and finally in 2002-03 it was 7.49%. The compound annual growth rate of production was 13.82% over the period.

As far as employment in small-scale industry sector is concerned, it was 129.8 lakh persons in 1991-92 and this number consistently grew to 199.65 lakh persons in 2002-03. The percentage increase in employment was 3.28% in 1992-93, which grew by 5.15% in 1994-95. And it came down to 2.62% in 1998-99; again it grew by a higher rate of 3.85% in 2002-03. The compound annual growth rate of employment during 1991-92 to 2002-03 was 3.99%.

The number of small-scale units stood at 20.82 lakh in 1991-92 and this rose to 35.72 lakh in 2002-03. The number of SSI units increased by 7.88% in 1992-93 and it grew by 3.78% in 2002-03. The compound annual growth rate in the number of units during 1991-92 to 2002-03 was 5.03 per cent.

Exports from the small-scale industry sector were Rs. 13883 crore in 1991-92 and continuously increased to Rs. 86012 crore in 2002-03. Exports of the sector grew by 28.1%

in 1992-93 and recorded highest percentage increase in 1993-94 at 42.3%. The growth rate in 1996-97 was 7.62%, which increased to 28.78% in 2000-01. Finally it grew by 20.73% in 2002-03. The compound growth rate during the period was 18.03 per cent per annum. Exports from the small-scale industry sector, as percentage of production was 7.77 per cent in 1991-92 and rose to 10.05 per cent in 1995-96 and rose to 11.59 per cent in 2002-03. The average export from the sector as per cent of production during the study period was 9.78 per cent.

2.4 State-Wise Profile of Small-Scale Industrial Units: -

State-wise information as obtained from the SIDBI report on small-scale industries sector 2001 is as follows: [4]

A major concentration of small-scale industry units has been in the state of Uttar Pradesh (12.51 per cent), followed by Tamil Nadu (11.34 per cent), Madhya Pradesh (9.71 per cent), Bihar (9.34 per cent), Maharashtra (7.83 per cent), Karnataka (7.30 per cent), Punjab (6.38 per cent), Gujarat (5.76 per cent), and kerala (5.70 per cent).

Tamil Nadu accounted for the largest share of employment in the small-scale industry sector (20.05 per cent), followed by Maharashtra (10.28 per cent), Uttar Pradesh (9.73 per cent), Karnataka (7.39 per cent), Delhi (7.38 per cent), Gujarat (6.46 per cent), Punjab (5.54 per cent), and Andhra Pradesh (5.53 per cent).

Maharashtra accounted for the largest share of fixed investment on the small-scale industry sector in the country (33.31 per cent), followed by Tamil Nadu (12.03 per cent), Gujarat (8.96 per cent), Karnataka (6.65 per cent), Uttar Pradesh (5.47 per cent) and Punjab (5.32 per cent). The remaining states/UTs had shares investment less than 5 per cent.

The average employment per small-scale industry unit is estimated to be 5.09 persons at the all India level. The average employment per unit is the highest in Daman & Diu (20.12 Persons) followed by Dadar and Nagar Haveli (13.79 persons), Sikkim (9.94 persons), Chandigarh (9.88 persons), Tamil Nadu and Delhi (9.00 persons), Orissa (8.85 persons) and Pondicherry (8.22 persons). The other eight states having an average employment above the all India average are Goa (6.86 persons), Maharashtra (6.68 persons), Andhra Pradesh (6.41 persons), Mizoram (5.93 persons), Meghalaya (5.74 persons), Haryana (5.63 persons), Gujarat (5.50 persons) and Karnataka (5.15 persons). The lowest employment per unit has been in the states of Bihar (1.63 persons), Madhya Pradesh (2.36 persons) and Nagaland (2.45 persons).

Investment per unit is the highest in Chandigarh (Rs. 2.76 million), followed by Dadar and Nagar Haveli (Rs. 1.92 million), Maharashtra (Re. 0.96 million), Sikkim (Re. 0.77 million), Jammu & Kashmir (Re. 0.67 million), Pondicherry (Re. 0.52 million) and Goa (Re. 0.41 million).

2.5 Performance of Small Scale Industry Sector: -

As stated in the beginning, the small-scale industry sector plays a vital role in the growth of the country. It contributes almost 40 per cent of the value addition in the manufacturing sector. "It has been estimated that a million rupees of investment in fixed assets in the small scale sector produces 4.62 million worth of goods or services with an approximate value addition of ten percentage points."[5] Further it has also been observed that, "small-scale industry sector in India creates largest employment opportunities for the Indian populace, next only to agriculture. It has been estimated that 100,000 rupees of investment in fixed assets in the small scale sector generates employment for four persons."[6]

When we look into the industry group wise employment generation, "food products industry has ranked first in generating employment, providing employment to 0.48 million persons (13.1%). The next two industry groups were non metallic mineral products with employment of 0.45million persons (12.2%) and metal products with 0.37 million persons (10.2%), In Chemicals & chemical products, Machinery parts except Electrical parts, Wood products, Basic Metal Industries, Paper products & printing, Hosiery & garments, Repair services and Rubber & plastic products, the contribution ranged from 9% to 5%, the total contribution by these eight industry groups being 49%. In all other industries the contribution was less than 5%."[7]

Small-scale industry sector plays a major role in India's present export performance. "The number of SSI units undertaking direct exports is more than 5000. Over all small-scale industry exports contribute around 45-50 per cent of the total Indian export basket, while direct exports account for nearly 35 per cent of total exports. The indirect export channel includes merchant exporters, trading and exports houses, export orders from large units or the production of parts and components for use in finished exportable goods etc. Non-traditional products account for more than 95 per cent of SSI exports. The major SSI export items consists of low skilled labour intensive goods like garments (ready made garments, woollen garments and knitwear), leather products, gems and jewellery products, sports goods, plastic goods, processed food etc."[8]

2.5.1 Comparative Analysis of Small Scale Industry Sector vs. Overall Industry Sector: -

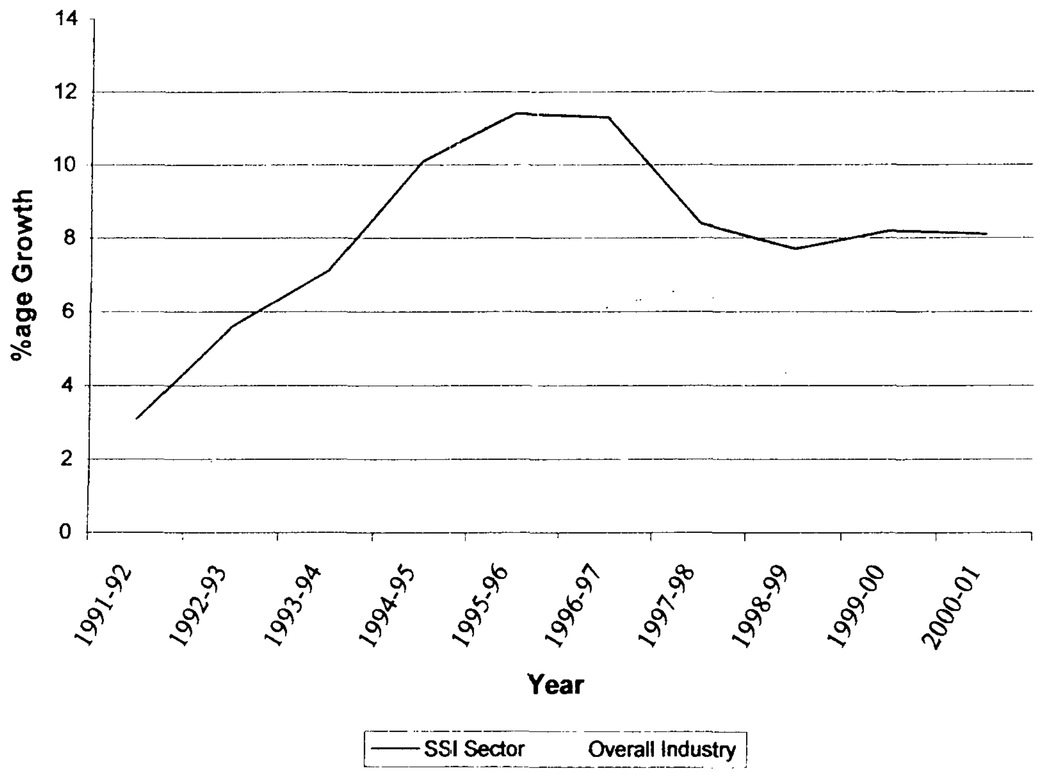
It is pertinent to correlate the growth of overall industry sector with that of the small-scale industry sector to understand the significance of small-scale industry sector in the overall industrial growth. The contribution and significance of small-scale industry sector in the overall

Table: - 2.4
Comparative Annual Growth Rates of SSI and Overall Industry

Year	SSI Sector (%)	Overall Industry (%)
1991-92	3.1	0.6
1992-93	5.6	2.3
1993-94	7.1	6.0
1994-95	10.1	9.1
1995-96	11.4	13.0
1996-97	11.3	6.1
1997-98	8.4	6.7
1998-99	7.7	4.1
1999-00	8.2	6.7
2000-01	8.1	5.0

Source: - SIDBI Report on Small Scale Industries Sector 2001, SIDBI 2002, Lucknow, P.19

Figure - 2.1
Comparative Annual Growth Rates of SSI and Overall Industry



industrial growth can be analysed with the help of above table 2.4.

The growth potential of the sector becomes clear from the comparative growth rates of the overall industry sector and small-scale industries during the 1990s. It can clearly be seen in the figure 2.1 that while the growth rate of overall industry sector has been subject to wide fluctuations, the small-scale industries have grown at a much steadier rate. Only during the year 1995-96, the overall industry sector registered a higher rate of growth as compared to small-scale industries during the study period. In 1991, the small-scale industry sector grew by 3.1 per cent while overall industry sector recorded a meagre 0.6 percent growth rate. Small-scale industry sector recorded higher growth rate than the overall industry sector upto 1994-95. However, in 1995-96 the overall industry sector grew by 13 per cent while small-scale industry sector registered a lower rate of 11.4 per cent. The growth rate of small-scale industry sector was again registered higher rate than the overall industry after 1995-96. The higher rate of growth of small-scale industry sector has helped in pushing the growth rate of overall industry sector.

However, the point of concern is that the growth rate of small-scale industry sector has declined in the last couple of years in comparison with the mid-nineties level and is showing a stagnating trend.

2.5.2 Efficiency and Investment: -

Labour and capital productivity are partial measures of efficiency. Labour productivity is measured as the net value added per employee. Similarly, capital productivity is measured as the net value added per unit of capital invested. The relative labour productivity of the small-scale industry sector has been calculated by dividing the labour productivity of the small-scale industry sector by the labour productivity of the large-scale sector. Relative capital productivity of the small-scale industry sector has also been calculated in the similar manner. Capital intensity is measured by calculating the amount of invested capital per employee. Relative capital intensity has been estimated as a ratio of capital intensity in the small-scale industry factory sector to capital intensity in the large-scale factory sector. Factor productivity is a comprehensive measure of efficiency and is defined as output per unit of labour and capital combined. Relative total factor productivity has been estimated for measuring relative efficiency index.

A comparative analysis of the efficiency in the small-scale industry sector and large-scale sector has been made using ASI data on the factory sector for the period 1980-98. The results are indicative only of efficiency in the factory sector, which is a relatively small sub-sector within the total small-scale industry sector, which consists of both the factory sector and the unorganised sector.

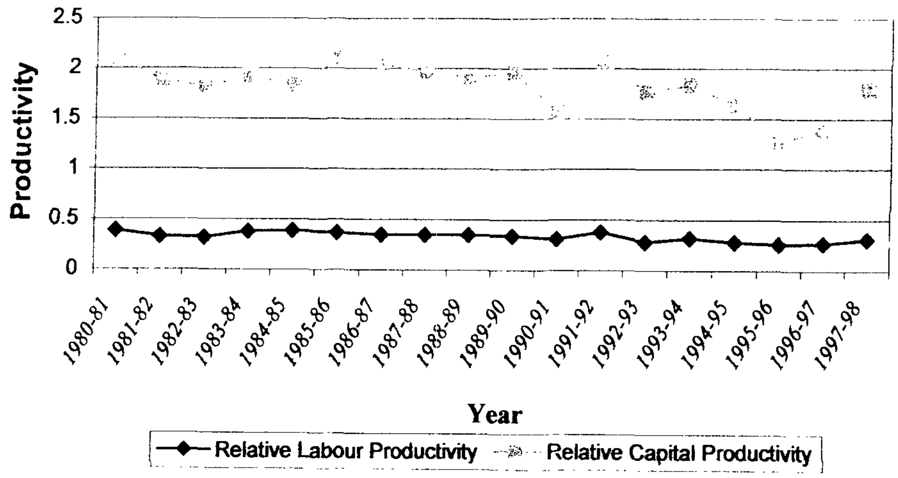
It has been noticed that small-scale industry sector has witnessed a much higher growth rate in capital productivity as compared to the large-scale sector. While the growth rate of capital productivity in the SSI sector has been 10.41 per cent pre annum during the 1990-98, the same for the large-scale sector has been 8.32 per cent per annum during 1990-98. A similar trend is noticed in the case of labour productivity. The data show that labour productivity in the small-scale industry

Table: - 2.5
Labour and Capital Productivity: SSI, Large and Total Factory Sectors 1980-98

Year	Relative Labour Productivity	Relative Capital Productivity
1980-81	0.39	2.09
1981-82	0.33	1.88
1982-83	0.32	1.81
1983-84	0.38	1.92
1984-85	0.39	1.83
1985-86	0.37	2.10
1986-87	0.35	2.04
1987-88	0.35	1.97
1988-89	0.35	1.90
1989-90	0.34	1.96
1990-91	0.31	1.56
1991-92	0.38	2.06
1992-93	0.28	1.77
1993-94	0.32	1.83
1994-95	0.28	1.63
1995-96	0.26	1.27
1996-97	0.27	1.39
1997-98	0.31	1.79

Source: - SIDBI (2002): SIDBI Report on SSI Sector 2001, Table 2.13, P.42

Figure - 2.2
Relative Labour and Capital Productivity: 1980-98



sector and the large-scale sector has increased at the compound annual growth rate of 8.15 per cent and 7.87 per cent respectively during 1990-98.[9]

The estimated relative capital and relative labour productivity indices are given in the above table 2.5.

As seen in the figure 2.2 & table 2.5, relative labour productivity is less than one, indicating a lower level of value added per employee in the small-scale industry factory sector than in the large-scale factory sector. On the other hand the relative capital productivity greater than one suggests that value added per unit of capital invested is higher in the small-scale industry factory sector as compared to large-scale factory sector. In other words capital productivity in SSI factory sector is greater than the large-scale factory sector.

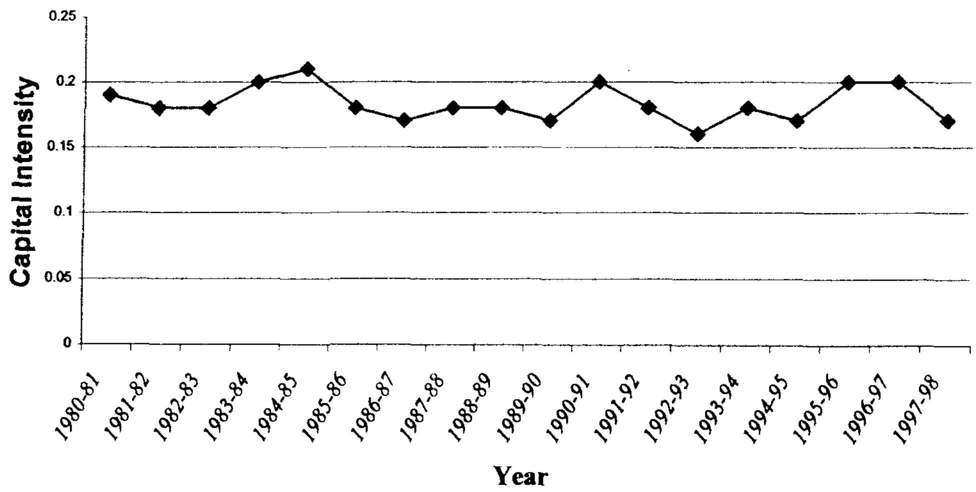
The estimated relative capital intensity as shown in the table 2.6 & figure 2.3 is less than one, suggests that less capital per worker is used in the small-scale industry factory sector as compared to the large-scale factory sector. In other way we can say that the small-scale industry factory sector

Table: 2.6
Relative Capital Intensity: SSI, Large and Total Factory Sectors 1980-98

Year	Relative Capital Intensity
1980-81	0.19
1981-82	0.18
1982-83	0.18
1983-84	0.20
1984-85	0.21
1985-86	0.18
1986-87	0.17
1987-88	0.18
1988-89	0.18
1989-90	0.17
1990-91	0.20
1991-92	0.18
1992-93	0.16
1993-94	0.18
1994-95	0.17
1995-96	0.20
1996-97	0.20
1997-98	0.17

Source: - SIDBI (2002): SIDBI Report on SSI Sector 2001, Table 2.12, P.42

Figure - 2.3
Relative Capital Intensity: SSI, Large and Total Factory Sectors 1980-98



units are more labour intensive as compared to the large-scale sector.

Finally, the estimated relative efficiency index for the period 1980-98 is shown in the figure 2.4.

The relative efficiency is in general greater than one except in 1995-96, when the large scale sector experienced a higher growth rate, indicating that the small-scale industry sector is more efficient than the large-scale sector.

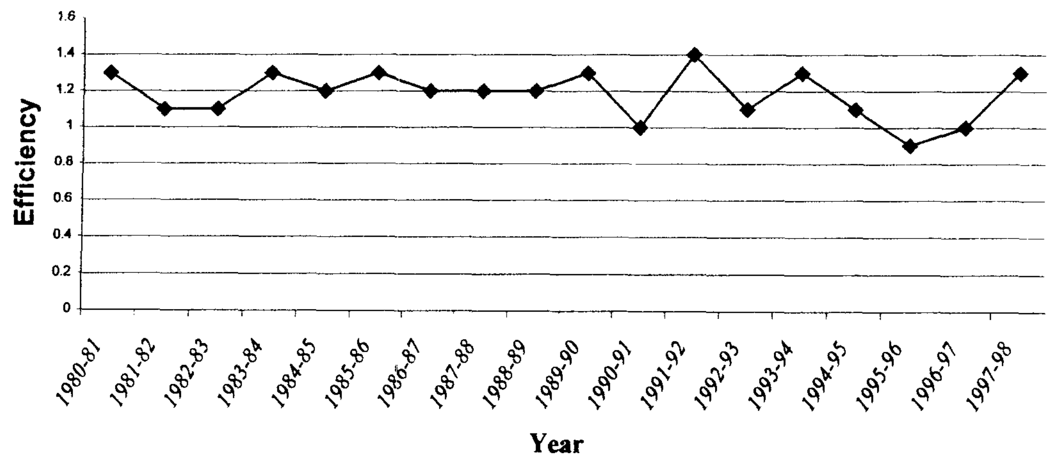
A comparative analysis of certain input and output characteristics of small-scale industry sector with the large-scale sector is attempted. The growth in the net value added in the SSI factory sector was higher than the large-scale sector during 1990-98. The net value added in the small-scale industry factory sector increased by 16.91 per cent per annum during 1990-98 where as the annual rate of growth of large-scale factory was 6.93 per cent during the same period. Fixed capital in the small-scale industry factory sector showed a high growth of 8 per cent per annum during 1990-98 while large-scale factory sector declined by 1.21 per cent per annum during the same period. Similarly, invested capital in the

Table: - 2.7
Relative Efficiency in SSI Sector: 1980-98

Year	Efficiency Index
1980-81	1.3
1981-82	1.1
1982-83	1.1
1983-84	1.3
1984-85	1.2
1985-86	1.3
1986-87	1.2
1987-88	1.2
1988-89	1.2
1989-90	1.3
1990-91	1.0
1991-92	1.4
1992-93	1.1
1993-94	1.3
1994-95	1.1
1995-96	0.9
1996-97	1.0
1997-98	1.3

Source: - SIDBI (2002): SIDBI Report on SSI Sector 2001, Table 2.14, P.43

Figure - 2.4
Relative Efficiency in SSI Sector: 1980-98



small-scale industry factory sector increased by 6.03 per cent per annum during 1990-98 whereas the large-scale factory sector declined by 1.11 per cent per annum during the 1990-98.[10]

Thus it is seen that the small-scale industry sector in terms of net value added, fixed capital and invested capital has fared much better than the large-scale sector.

2.6 Features of Small Scale Industry Sector in Third Census: -

The Office of the Development Commissioner (Small Scale Industries) conducted two censuses of registered SSI units prior to the Third Census. The First Census was conducted in 1973-74 in respect of 2.58 lakh SSI units registered up to November 1973. The Second Census was conducted during 1990-91 in respect of 9.87 lakh SSI units registered up to March 1988. During this Census, only 5.82 lakh units were found working. Accordingly, the Third all-India Census was conducted during 2002-03 for the possible proximate reference year, i.e., 2001-02. The third all-India census of small-scale industry sector reveals the following features of the sector: [11]

It is estimated that the Total SSI sector comprises 1,05,21,190 units, spreading over the length and breadth of the country. About 55 per cent of these units were located in rural India. Over 44 lakhs (42.26 per cent) in the total SSI sector were SSIs and the remaining 61 lakhs (57.74 per cent) were SSSBEs. The number of ancillary units among SSIs was 2.98 per cent. The dominating presence of tiny units with original investment in plant & machinery up to Rs.25 lakh has been a continuous feature in the SSI sector. In the Third Census, it was found that 99.5 per cent of the SSIs were tiny units.

In terms of State-wise spread, it is seen that Uttar Pradesh (16.23%), Andhra Pradesh (8.32%), Maharashtra (7.64%), Madhya Pradesh (7.54%) and Tamil Nadu (7.49%) were the top five States having a total share of 47.22 per cent in terms of number of units.

It was estimated that the total SSI sector comprises 44,45,868 SSIs (42.26 per cent) and 60,75,322 SSSBEs (57.74

per cent). The number of ancillary units among SSIs was estimated to be 1,32,313 (2.98 per cent).

Although registration is voluntary, the registered SSI sector was found to be the cream of the total SSI sector. In terms of size, it was only 13 per cent, but in terms of investment, its share was 59 per cent and it contributed to 72 per cent of the total production of the SSI sector.

About 95.8 per cent of the units in the Total SSI Sector were found to be of proprietary type of ownership. Entrepreneurs belonging to socially backward classes managed about 56 per cent of the units. The number of women enterprises was 10,63,721 (10.11per cent). The number of enterprises actually managed by women was 9,95,141 (9.46 per cent).

The latest final results available of ASI are of ASI 2000-01. However, the CSO released Quick Estimates of ASI 2001-02. The Quick Estimates covered information on number of units, employment and output which could be compared with Third Census. With regard to Fixed capital and other ratios relating to that, comparison with Third Census was made on the basis of results of ASI 2000-01.

The comparison of SSI sector with large scale manufacturing sector covered through ASI reveals that the SSI sector is a better employment-generating sector. Third Census showed that the employment generated by the SSI sector per Rs. one lakh investment was 1.39, as against only 0.20 in respect of ASI. This means that the organised sector requires an investment of Rs.5 lakhs to generate employment to one person whereas the SSI sector generates employment for 7 persons with the same investment. With regard to investment - output ratio also, the SSI sector fared almost on par with the organised sector. It is found that an investment of about Rs.43,000 was required in the organised sector to generate an output worth Re. one lakh, whereas in SSI sector, marginally higher investment of Rs. 48,000 would be required to generate the same amount of output.

I) **Investment in SSI Sector:**

The fixed investment in the Total SSI Sector was estimated to be Rs.1,54,34,867 lakh. The six States of Maharashtra (18.13 per cent), Uttar Pradesh (11.2 per cent), Andhra Pradesh (8.01 per cent), Punjab (7.67 per cent), Gujarat (7.15 per cent) and Tamil Nadu (7.12 per cent) together had a share of 59.28 per cent in the total fixed investment in the SSI Sector.

The total original value of investment in plant and machinery in the SSI Sector is estimated to be Rs.54,89,360 lakh. The six States of Maharashtra (16.78 per cent), Uttar Pradesh (10.38 per cent), Andhra Pradesh (8.54 per cent), Tamil Nadu (8.45 per cent), Karnataka (6.35 per cent) and Gujarat (6.25 per cent) together had a share of 56.75 per cent in the total original value of investment in plant and machinery in the SSI Sector.

II) **Capital Structure in the Registered and Unregistered SSI Sector:**

The original value of Plant & Machinery in the Registered SSI Sector is estimated to be Rs. 30,32,868 lakhs. 7.29 per cent of the units had their plant and machinery installed during the seventies, 28.32 per cent in the eighties, 56.36 per cent in the nineties and 5.03 per cent during 2000-01. Thus about 36 per cent of the units currently found working had their plant and machinery installed during the seventies and the eighties. This indicates the need for technology upgradation in the sector.

Distribution of principal characteristics by original value of plant and machinery is given in the census. The data reveals that every three out of four units had original value of plant and machinery below 1 lakh and 94 per cent units had value of plant and machinery up to 5 lakhs only. Share of these 94 per cent units in total value of plant and machinery was only 30.72 per cent and in the total value of fixed capital it was 37.76 per cent.

The fixed investment in the registered SSI Sector is estimated to be Rs. 91,79,207 lakhs. About 53 per cent of the units with a share of only 3.5 per cent in fixed capital provided employment to about 27 per cent.

It was estimated that the unregistered SSI Sector comprising 91,46,216 units had a fixed investment of Rs. 62,55,660 lakh and original investment in plant and machinery worth Rs.24, 56, 492 lakh.

About 97 per cent of the units had a fixed investment up to Rs. 2 lakh and these units had a share of about 61.5 per cent in the total fixed investment in the sector.

About 96 per cent of the units had the original investment in plant and machinery up to Re. One lakh.

III) **Participation of Women in the SSI Sector:**

The participation of women in SSI sector has been identified in three different roles. Some women were owners of enterprises, some were managers of enterprises and some were employees. With regard to ownership, an SSI or a SSSBE managed by one or more women entrepreneurs in proprietary concerns, or in which she/ they individually or jointly have a share capital of not less than 51 per cent as partners/ share holders/ Directors of Private Limited Company/ Members of Co-operative Society is called a 'Woman enterprise'.

The total number of women enterprises in the Total SSI Sector was estimated at 10,63,721 (10.11 per cent). The estimated number of enterprises actually managed by women was 9,95,141 (9.46 per cent). In the States of Mizoram, Orissa, Karnataka, Goa, Lakshadweep, Kerala, Tamil Nadu and Pondicherry, the share of women employment was significantly higher (more than 20 per cent).

The total number of female employees in the SSI sector is estimated at 33,17,496. About 57.62 per cent of the female employees were employed in the SSI units located in the States of Tamil Nadu, Kerala, Karntaka, West Bengal and Andhra Pradesh.

IV) **Clusters in the SSI Sector: -**

Traditionally, there has been a phenomenon of a group of units manufacturing same or similar product in close geographical proximity to each other. Such groups were called clusters. Clustering has been recognised both nationally and internationally as an engine of growth and identification of the clusters in small-scale industries had facilitated effective policy formulation in the past. Clusters of Small Scale Industries were identified through the Second Census of registered SSI units and are in use for various policy decisions till today. In view of the importance attached to clusters in the SSI sector, an attempt has been made to identify clusters in the Third Census of Small Scale Industries.

A district having 100 or more registered SSI units that were engaged in manufacturing the same product as per ASICC 2000 (at 5 digit) was considered as a cluster for that product in that district. Using this criterion, 1223 clusters covering 321 products were identified in the registered SSI sector. These clusters had a 32.68 per cent share in total number of registered units, 18.95 per cent in total market value of fixed assets, 16.99 per cent in total gross output and 27.66 per cent in total value of employment of manufacturing activity of the registered SSI sector.

In the unregistered sector, each district having an estimated number of 500 or more unregistered SSI units which were engaged in manufacturing of a product as per ASICC 2000 (at 5 digit) was considered to form a cluster of that product in that district. Using this criterion, 819 clusters covering 250 products were identified in the unregistered SSI sector. These clusters had a share of 37.85 per cent in total estimated number of unregistered units, 22.45 per cent in total estimated market value of fixed assets, 21.04 per cent in total estimated gross output and 34.63 per cent in total estimated value of employment of the manufacturing activity in the unregistered SSI Sector.

V) Exports in SSI Sector: -

Exports during the reference period 2001-02 was collected in the Third Census. It was estimated that there were 50,606 exporting units accounting for exports to the tune of Rs. 14,19,956 lakh. The value of exports was only 5 per cent of the gross output. The registered SSI Sector accounted for 87 per cent of the total exports with only 14.5 per cent of the exporting units.

The states of Madhya pradesh, Uttar pradesh, Jharkhand, Karnatka, West Bengal and Maharashtra together accounted for 55.41 per cent of the total exporting units in the country. The states of Punjab, Tamil Nadu, Uttar Pradesh, Haryana, Maharashtra and Delhi together accounted for 74 per cent of the total exports in the small-scale industry sector.

2.7 Conclusion: -

To conclude, the small-scale industry sector has witnessed significant growth over the years in terms of the number of units, value of production, employment generation and exports. Further, the small-scale industry sector has grown a much steadier rate than the overall industry sector over the period. Moreover, the labour productivity in the small-scale industry sector was lower than the large-scale sector. But the capital productivity was higher in the small-scale industry sector than the large-scale sector. In addition to this the small-scale industry sector fared much better in terms of net value added, fixed capital and invested capital. The small-scale industry sector has played a crucial role in providing large-scale employment opportunities. These industries have also been helpful in building a wide entrepreneurial base and dispersal of industries in rural and backward areas. So their role in providing equitable development is commendable.

The SSI sector has shown resilience in spite of heavy competition over the years and recession in some of the years. The sector has grown from strength to strength and across the length and breadth of the country. Thus the small-scale industry sector has shown much better performance than the overall industry sector.

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Chapter -III

Development of Small Scale Industries: Policy Measures in India

3.1 Introduction: -

Promotion of small-scale industries has been one of the major objectives of economic planning in India. The policies and strategies have undergone change from time to time. Major changes have been made with initiation of economic reforms especially when WTO came into being in 1995.

This chapter looks into the growth of policies, which have been formulated in the industrial policy statements and in the Five Year Plans to promote this sector. The Policy changes are dealt in two sections, first, policy measures made before economic reforms and second, changes made after reforms. The second last section deals with the promotional institutions established for the development of SSI Sector. Finally the last section summarizes the main conclusions of this chapter.

3.2 Policy Measures Before Economic Reforms: -

"By the end March 2002 there were over 3.4million *small scale industrial units in the country accounting for more* than 40 per cent of the gross value of output in the manufacturing sector and about 35 percent of total exports of the country. They provided employment to over 19.2 million persons which is second only to agriculture". [1]

Thus the small-scale industries sector has made a significant contribution to production and exports and played a crucial role in providing large-scale employment opportunities. These industries have also been helpful in building a wide entrepreneurial base and dispersal of industries in rural and backward regions. So, their role in providing equitable development is commendable.

Therefore, Government of India has helped the small-scale sector through supportive policy measures and assistance programmes since adoption of planed economy model.

The basic approach towards development of small-scale industries sector as outlined in industrial policy statements and national plans is summarized below.

The promotion of small-scale industries has been one of the major objectives of economic planning in India, the policies and strategies have undergone change from time to time.

The Government of India recognized it after independence in the industrial policy resolution of 1948 that small-scale industries were particularly suited for better utilization of local resources and for the achievement of local self-sufficiency in respect of certain types of essential consumer goods.[2]

In the First Five Year plan, it was emphasized that "for absorbing all or a large proportion, of the increase in working population each year in non-agricultural occupations, reliance will have to be placed mainly on small scale and cottage industries involving comparatively small capital investment".[3]

A major step towards the development of small industries was taken during the First Five Year Plan period (1951-56) with the establishment of All India Boards to advise and assist in the formulation of programmes of development for the handloom industry, khadi and village industries, small scale industries, handicrafts, sericulture and coir. The Khadi and Village Industries Board not only prepared programmes for the industries with which it was concerned but also had them implemented through registered institutions and cooperative societies.[4]

First International Planning Team, which visited the country in 1953-54, sponsored by Ford Foundation, recommended the development of the modern small industries i.e. small enterprises using modern methods of production and management. On the basis of the recommendation of the team, a separate organization was set up to launch a systematic and coordinated development of modern small industries in the country. Thus, Small Industries Service Institutes and National Small Industries Cooperation came into existence within All India Small Scale Industries Board at centre. For the implementation of the programmes and policies of the Govt. of India for the development of small scale industries, a central organization known as organization of the development commissioner, small scale industries was established. This organization formulates policy for small enterprises, furnishes and supervises the implementation of the development programmes and provides technical guidance and assistance to entrepreneurs and small industrialists in all matters relating to production and management of small enterprises.

"The initial model of industrial planning in India, known as Mahalanobis model relied heavily on what is known as the economic philosophy of capital fundamentalism. Its central emphasis was to develop a production base for manufacture of capital goods it needed. The role of small-scale sector was envisaged as supplier of consumer goods. It obviously implies that this strategy can be sustainable only if small-scale sector can generate enough surplus to sustain and support a programme of heavy industrialization. This called for a separate component of planning to promote modern small scale industries within the overall gamut of rural, village and small industries".[5]

The policy for the small-scale sector was first proclaimed in the industrial policy resolution of 1956. The basic framework of Industrial Policy is visible in the following paragraphs of the 1956 Resolution:

"The Government of India would, in this context stress the role of Cottage and Village and Small Scale Industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large-scale employment, they offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilization of resources of capital and skill, which might otherwise remain, unutilized. Some of the problems that unplanned urbanization trends to create will be avoided by the establishment of small centers of industrial production all over the country."[6]

"Directional strength was imparted to the sector by Industries (Development and Regulation) Act 1951, section 11 B provides the power to define small scale industry and section 29 B provides for the reservation of products for exclusive production in the small scale industrial sector."[7]

While designating the small industries an important place in the national economy, the Industrial Policy

Resolution of 1956 pointed the strategy and other measures for the SSI sector in the following manner:

"The state has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, when ever necessary, the aim of the state policy will be to ensure that the decentralized sector acquires sufficient vitality to be self supporting and its development is integrated with that of large scale industry. The state will, therefore, concentrate on measures designed to improve the competitive strength of the small-scale producer. For this it is essential that the technique of production should be constantly improved and modernized, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment."[8]

A notable development took place during the second Five Year Plan and the programme for village and small-scale industries to be carried out during this plan period was considerably enlarged. After the formulation of First Five

Year Plan (1951-56), a committee, the Village and Small Scale Industries Committee commonly known as the Karve Committee, which was appointed by the planning commission in June, 1955 with Prof. D.G. Karve as its chairman. The principal aims of this committee were; [9]

i) To avoid as far as possible during the period of the second plan, further technological unemployment such as occurs specially in the traditional village industries;

ii) To provide for as large a measure of increased employment as possible during the plan period through different village and small industries; and

iii) To provide the basis for the structure of an essentially decentralized society and also for progressive economic development at a fairly rapid rate.

The committee outlined specific measures for protection of the village and small-scale industries sector. The important among these measures were: [10]

i) Reservation of certain items only for village and small industries,

ii) Restriction on capacity expansion of large industry and

iii) Management of supply of raw materials.

Accepting the recommendations of the committee, the Government formulated the common production policy and programme for the balanced development of large scale, small scale and village industries.

The Third Five Year Plan stated, "With improvement in technique and organization, these industries offer possibilities of growing into an efficient and progressive decentralized sector of the economy providing opportunities of work and income all over the country."[11]

The Fourth Five Year Plan reiterated the earlier basic approach to the development of small-scale industries sector and the following objectives were emphasized: [12]

i) To improve progressively the production techniques of small-scale industries so as to enable them to produce quality goods and to bring them to a viable level;

ii) To promote decentralization and dispersal of industries, and

iii) To promote agro base industries.

In order to achieve above objectives the plan envisaged certain fiscal and other measures. It was necessary to improve skills and provide a combination of incentives and disincentives for securing decentralization and dispersal of small industries. Fiscal and other measures were required to enable these industries to stand competition with large industries. The operation of industrial licensing system was not effective in preventing competition from the large industries and in providing the required degree of initial protection. Nor was possible to prevent concentration of industries in large cities and towns. Since a large number of industries were proposed to be delicensed during the Fourth Plan period, greater emphasis was given in a variety of positive measures of assistance, including liberal credit facilities, adequate supply of scarce raw material, provision of technical assistance and improved appliances, tax concessions and differential excise duties. It was necessary to assist mechanized small-scale industries to grow into large and more viable units. Further in order to protect small scale and traditional industries from undue competition, the existing reservations were to be continued and modified in accordance with the requirements. This was preceded by careful identification of industries, parts, components and processes in which the large size of operation or a high degree of mechanization had no pronounced impact on economies. This identification was followed by fiscal and credit policies and measures to accelerate their development in the small sector, evolution of appropriate technology for smaller units in different industries. Introduction of quality control and formulation of well coordinated programmes of assistance outside the designated field for small industries; the small and large industrial sectors were developed wherever possible, as complementary to each other so as to facilitate growth of ancillary industries.[13]

The industrial policy statement of 1977 stressed the integrated approach for effective promotion of cottage and small industries widely dispersed in rural areas and small towns. The policy gave more emphasis on the reservation of items. The reservation of economically viable and technically feasible products for exclusive manufacture by small-scale industries, which began in 1967 with only 47 items, was significantly stands at 675 items.

The principle objective of the Fifth Five Year Plan for the development of different small scale industries was to facilitate the attainment of some of the major task for the removal of poverty and inequality in living standards through creation of large scale opportunities for further and additional productive employment and improvement of skills, so as to improve earnings of people. Further, the programme was reoriented to set up the production of some of the basic and essential articles for the people and the products, which were having larger potential for exports. Taking into account the shortcomings in implementation of the programmes during the Fourth Plan period and the recommendations of the task force set up in connection with the formulation of the programmes for these industries, the broad strategy of the Fifth Five Year Plan were: [14]

i) To develop and promote entrepreneurship and provide a package of consultancy services so as to generate maximum opportunities for employment particularly self-employment;

ii) To facilitate fuller utilization of the skills and equipment of the persons already engaged in different small industries;

iii) To progressively improve the production techniques of these industries so as to bring them to a viable level; and

iv) To promote these industries in selected growth centers in semi-urban and rural areas including backward areas.

The enlarged development programmes formulated for the Fifth Plan was supported by suitable policy measures of protection and incentives. In this context, within the framework of the Industrial Policy Resolution 1956, the policies relating to industrial development and licensing were reviewed. On the basis of this review, the Governments policy continued to encourage competent small and medium entrepreneurs in all industries, which were preferred vis-à-vis the larger industrial houses and foreign companies, in the setting up of new capacity. The existing policy of reservation for the small sector was not only continued but also extended consistent with potentialities and performance of the sector. Licensing policy was needed the promotion of small ancillaries, wherever feasible and appropriate small entrepreneurs including their cooperatives were encouraged to participate in the production of mass consumption goods. It was also contemplated to enlarge a variety of positive measures designed to promote the growth of small and medium entrepreneurs.

Due to a very favourable capital output ratio and high employment intensity, the promotion of village and small-scale industries was continued as an important element in the national development strategy during the Sixth Five Year Plan. The principal objectives for the development of village and small industries sector were as follows: [15]

i) Improvement in the levels of production and earnings, particularly of the artisans through measures like up gradation of skills and technologies and producer oriented marketing etc;

ii) Creation of additional employment opportunities on a dispersal and decentralized basis;

iii) Significant contribution to growth in the manufacturing sector through, inter alia, further utilization of existing installed capacities;

iv) Establishment of a wider entrepreneurial base through appropriate training and package of incentives;

v) Creation of viable structure of village and small industries sector so as to progressively reduce the role of subsidies; and

vi) Expanded efforts in export promotion.

According to the industrial policy statement of July 1980, the policy measures for the development of small-scale sector were as follows: [16]

i) Government was determined to promote such a form of industrialization in the country as can generate economic viability in the villages handlooms, handicrafts, khadi and other village industries will receive greater attention to achieve a faster rate of growth in the villages.

ii) While making all efforts towards integrated industrial development it was proposed to promote the concept of economic federalism with the setting up of a few nucleus plants each district, identified as industrially backward to generate as many ancillaries and small and cottage units as possible;

iii) Policy regarding marketing support to the decentralized sector and reservation of items for small scale industries shall continue to be in force in the interest of growth of small scale industries.

In the light of all above, the policy support for the development programmes relating to village and small industries during the Sixth Five Year Plan were: [17]

i) Integration of the promotional programmes in the sector with other area development programmes and adoption of a cluster approach particularly for the traditional industries;

ii) Restructuring of the organizational base at the district level to make it more effective and result oriented;

iii) Development of appropriate technologies and skills, their effective extension and transmission;

iv) Increased availability of raw materials including creation of buffer stocks particularly of critical raw materials;

v) Accelerated flow of institutional funds especially in favour of artisans, village industries and 'tiny' units and rationalization of the interest rate structure;

vi) Organization of producer oriented marketing both within and outside the country;

vii) Selective reservation of items for exclusive production and purchase from cottage and small industries;

viii) Effective promotion of ancillaries;

ix) Strengthening and extension of cooperatives form of organization particularly for the cottage and tiny units, and

x) Building up of a sound database to facilitate proper policy formulation and evaluation.

Food, work and productivity were the main objectives of the Seventh Five Year plan. Small-scale sector had contributed towards improving economic and occupational profile of rural, semi-urban and weaker sections of urban communities through promotion of village and small-scale industrial activities. The principal objectives of this sector in the Seventh Five Year Plan were: [18]

i) To assist in the growth and widespread dispersal of industries;

ii) To increase the levels of earnings of artisans;

iii) To sustain and create avenues of self employment;

iv) To ensure regular supply of goods and services through use of local skills and resources;

v) To develop entrepreneurship in combination with improved methods of production through appropriate training and package of incentives; and

vi) To preserve craftsmanship and art heritage of the country.

For achieving the above objectives the strategy during the Seventh Plan were to:[19]

i) Improve productivity, enhance quality, reduce costs and restructure product-mix through up-gradation of technology and modernization;

ii) Optimize utilization of existing capacities through supply of adequate inputs including credit, power and raw materials etc.;

iii) Expand share of VSI products in the domestic markets through publicity, standardization, market support and increased participation in the Government purchase programme;

iv) Strengthen the programmes of ancillarisation to establish and improve linkages between large and small industries leading to harmonious growth of the total industrial sector;

v) Promote specialization in production and export-oriented industries;

vi) Strengthen and enlarge skill profile and entrepreneurial base and management practices to increase opportunities for self employment, and

vii) Improve general levels of welfare of works and artisans through better working conditions, welfare measures and security of employment.

3.3 Policy Changes in the Post Liberalization Era

A policy package for small, tiny and village industries was announced in August 1991, with the primary objective of imparting more vitality and growth impetus to the sector.

In the new orientation to planning during the Eighth Five Year Plan, people's initiative and participation was regarded as a key element in the process of development. Greater emphasis was laid on private initiative in industrial development. The public sector was to be very selective in the coverage of activities and in making investment. Small enterprises in the village and small industries sector were more or less to be based on private initiative and entrepreneurship.[20]

3.3.1 The New Policy Statement for SSI Sector: -

In the post-liberalization era, there have been suitable policy changes depending upon the changing economic scenario. Policy changes were also necessitated for provision of product specific incentives and concessions to small enterprises for product standardization, technology up-gradation, modernization etc.

As a part of the process of economic reforms and opening up of the economy, separate set of policy measures for promoting and strengthening small, tiny and village enterprises were announced on 6th August 1991 for the first time. This new policy statement was a clear reaffirmation of the commitment of the Government towards the importance of this sector in the economic growth. The principal objectives of the policy statement were as follows: [21]

i) To impart more vitality and growth impetus to the sector. In furtherance of this objective the sector would be deregulated and de-bureaucratized to remove all fetters on its growth potential;

ii) To change and modify wherever required in all statutes, regulations and producers, to ensure that they do not mitigate against the interests of small and village enterprises.

iii) To shift emphasis from subsidized/cheap credit, except for specified target groups to adequate flow of credit on normative basis to the SSI sector;

iv) To provide access to capital markets to SSI sector by allowing 24 per cent equity participation by other industrial undertakings;

v) To make law to ensure prompt payment of small industries bills and legislation for limited partnership Act;

vi) To introduce new scheme of integrated infrastructure development to promote industrialization in rural and backward areas;

vii) To upgrade technology by setting up of technology development cell and strengthening the existing facilities available with SIDO;

viii) To promote marketing of SSI products through institutions, other agencies and consortia approach;

ix) To promote ancillarisation;

x) To strengthen exports through setting up of the export development centre and strengthening the existing support system;

xi) To enforce quality control and support to modernization and technology up-gradation of SSI sector;

xii) To change the definition of women enterprises and support to women enterprises;

xiii) To expand programmes of entrepreneurship development, and

xiv) To simplify rules and procedures to enable small-scale entrepreneurs to work in a free and unencumbered environment.

The new measures in tune with changing times as outlined in the new Policy statement August 1991 for SSI sector are as follows;

i) Locational criteria have been discontinued for defining various categories of small industries. Thus, the policy package has become uniform for the entire spectrum of SSI irrespective of location.

ii) The coverage of the sector has been enlarged by substantial increase in investment limits from 35 lakhs to Rs. 60 lakh;

iii) Government has incorporated a strategy to provide direct support to enhance infrastructure facilities rather than give subsidies to individual units. This has led to the discontinuation of the capital investment subsidy scheme and putting in place of the growth centre scheme and the Integrated Infrastructural Development Scheme,

iv) A beginning has been made to incorporate service in the small-scale sector. At present it is confined to industry related service and business enterprises, up to an investment limit of Rs. 5 lakh

v) The policy measures will work towards greater integration between small and large segment of industry. The policy has allowed equity investment by other industrial undertakings in small-scale units to the extent of 24 per cent.

vi) It has been explicitly stated that the tiny sector of industry would require both one time and sustained support in terms of monetary and fiscal benefits as well as support services. However, the modern small-scale sector with its better strength may be given only one time support. Therefore, concept stratification of SSI will emerge.

vii) There is an implicit recognition that emphasis in the modern small-scale sector would shift from simply protection/regulation to issues relating to quality technology modernization.

This new policy measures have in consonance with the new economic polices, considering that the industrial, trade and fiscal policies have undergone significant changes in the economic reforms process. The changes are fundamental nature and will result in pervasive and irreversible industrial restructuring. The new measures are designed to enable the small-scale sector to take advantage of the opportunities thrown upon by the liberalization process. On the other hand it would also be essential to promote, protect, nurture and guide the small-scale sector, to consolidate the gains achieved over the years.

As a sequel to the new policy statement, a number of administrative reforms were introduced, registration procedure has been simplified, locational restrictions have been reduced to minimum, industry related services have been brought within the fold of small scale development programmes, licensing restriction in small scale sector has been removed and environmental clearance procedures for SSIs have been rationalized. Major policy decisions have been taken in the field of SSI credit, extending fiscal benefits and removal of anamolies to provide impetus to technology up-gradation, entrepreneurship development and in other concerned areas.

An Expert Committee on Small Scale Industries under the Chairmanship of Abid Hussain was set in December 1995 by the Government of India to address to the need for reforms in the existing policies and design new policies which would facilitate the growth of viable and efficient small scale industries to make them globally competitive. The expert committee submitted its report on 27th January 1997. The committee in its report laid emphasis on the removal of protection, abolishing reservation, enhancement of SSI investment limit and restructuring supportive, specialized and financial institutions. It also emphasized on cluster approach for the future strategy of development.[22]

During the Ninth Plan, various initiatives were taken to strengthen the SSI units through technology up-gradation, modernization, enabling and encouraging them to enhance quality, introduction of modern management practices, providing marketing and other key inputs, increase availability of credit loans from financial institutions and banks against materials supplied etc. In addition, SSI units were made aware about the implication of the WTO regime, removal of QRs, reducing the list of items reserved for the sector etc.

3.3.2 The Comprehensive Policy Package for SSI Sector: -

A study group on the Development of Small Enterprises was set up in 1999 under the chairmanship of Dr. S. P. Gupta, member of planning commission, to look into the problems of SSI sector. The study Group submitted an interim report in July 2000. After inter-ministerial consultations on the interim report, the Prime Minister announced a comprehensive policy package for SSI and Tiny Enterprises Sector on the 30th August 2000. These announcements were followed by other announcements by the Ministry of Small Scale Industry and Agro and Rural Industries (SSI & ARI).

The comprehensive policy package for SSI sector and 'Tiny' sector announced by the Prime Minister and the

Ministry of small scale industries and Agro and Rural industries are listed below: [23]

SSI Sector:

i) The investment limit for SSI sector will continue to be Rs. 10 million.

ii) The Ministry of SSI and ARI will bring out a specific list of hi-tech and export oriented items which would require the investment limit to be raised to Rs. 50 million to admit suitable technology up-gradation and to enable them to maintain their competitive edge.

iii) The limited partnership Act will be drafted quickly and get enacted. An attempt will be made to bring the Bill before the next session of the Parliament.

iv) To improve the competitiveness of the Small Scale Sector, the exemption limit for excise duty has been raised from Rs. 5 million to Rs. 10 million.

v) The composite loans limit has been raised from Re. 1 million to Rs. 2.5 million.

vi) The small-scale service and Business (Industry Related) Enterprises (SSSBEs) with a maximum investment of Re. 1 million will qualify for priority lending.

vii) The eligibility limit for coverage under the recently launched (August 2000) Credit Guarantee Scheme has been revised to Rs. 2.5 million from the present limit of Re. 1 million.

viii) Under the National Equity Fund Scheme, the project cost limit will be raised from Rs. 2.5 million to Rs. 5 million. The soft loan limit will be retained at 25 per cent of the project subject to a maximum of Re. 1 million, per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum.

ix) The Department of Economic Affairs will appoint a Task Force to suggest the revitalization/restructuring of the State Financial Corporation.

x) The Nayak Committee's recommendation with regard to the provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks.

xi) The Integrated Infrastructure Development Scheme will progressively cover all areas in the country with a 50 per cent reservation for rural areas.

xii) Regarding the up-gradation of the industrial estates, that are languishing, the SSI Ministry will draw up a detailed scheme for consideration of the Planning Commission.

xiii) A plan scheme for cluster development will be drawn up.

xiv) The funds available under the non-lapsable pool for the North East will be made use of for Industrial Infrastructure Development in the North East region including Sikkim, for the setting up of incubation centers and for cluster development.

xv) Capital subsidy of 12 per cent of investment in technology in select sectors. An inter-ministerial committee of experts will be set up to define the scope of technology up-gradation and sectoral priorities.

xvi) To encourage total quality management, the scheme of granting Rs. 75000 to each unit for obtaining ISO-9000 certification will continue for the next six years, i.e. till the end of the Tenth Plan.

xvii) *The setting up of incubation centers in sunrise* industries will be supported.

xviii) The TBSE set up by SIDBI will be strengthened so that it functions effectively as a Technology Bank. It will be properly networked with NSIC, SIDO (SENET Programme) and APCTT.

xix) SIDO, SIDBI and NSIC will jointly prepare a compendium of available technologies for the R&D institutions in India and abroad and circulate this among the industry associations for the dissemination of the latest technology related information.

xx) Commercial banks are being requested to develop schemes to encourage investment in technology up-gradation and harmonize the same with SIDBI.

xxi) A one time capital grant of 50% will be given to Small Scale Industries Associations, which wish to develop and operate Testing Laboratories, provide they are of international standards.

xxii) SIDO will have a Market Development Assistance Programme, similar to the one operating in the Ministry of Commerce. It will be a plan scheme.

xxiii) The Vendor Development Programme, Buyer-Seller Meets and Exhibitions will take place more often and at dispersed locations.

xxiv) To *minimize* harassment to the SSI sector a group will be set up to recommend within 6 months, the means for streamlining inspection. This will include a repeal of laws and regulations applicable to the sector that have since become redundant.

xxv) Self certification will be progressively encouraged in lieu of inspections, which should be prescribed under the following three conditions:

- On receipt of specific complaint.
- Selection of unit for sample check (say 10 per cent of total units); and
- For audit and safety purposes.

xxvi) Capacity building in the SSI sector, both for entrepreneurs as well as workers will be given top priority.

The ministry of SSI and Labour Ministry will jointly work out the strategy.

xxvii) The reserve Bank of India is being requested to appoint a Task Force to go into the question of strengthening and popularizing factoring services, without recourse to the SSI supplies. The Task Force shall give its report within six months of its constitution.

xxviii) RBI is being requested to take up with the banks the question of sub-allocating the overall limits to the large borrowers specifically for meeting the payment obligations in respect of purchases from the SSIs, either on a cash basis or on bills basis.

xxix) RBI is being requested to draw up revised guidelines for the rehabilitation of currently sick but potentially viable SSI units. Such guidelines should be detailed, transparent and non-discretionary.

xxx) To support the Handloom Sector the "Deendayal Hathkarga Protsahan Yojna" has been announced. The scheme has a total financial implication of Rs. 4.47 billion and will provide comprehensive financial and infrastructural support to weavers.

xxxi) The Government is working out new comprehensive package to strengthen Khadi and Village Industries that with further upgrade the skills of Khadi workers.

xxxii) A fresh Census of Small Scale Industries will be conducted covering inter-alia, the incident of sickness.

TINY Sector:

i) The investment limit for the tiny sector will be continued to be Rs. 2.5 million.

ii) Under the Prime Minister's Rozgar Yojna, which facilitates the setting up of micro enterprises and generates employment for the educated unemployed, the family income eligibility limit of Rs. 24,000 per annum being revised to Rs. 40,000 pre annum.

iii) The Nayak Committee's recommendations regarding the provision of 20 per cent of the projected turnover as working capital is being recommended to the financial institutions and banks. In respect of tiny units also 20 percent of the projected annual turnover would qualify for working capital loan.

iv) The National Small Industries Corporation will continue to give composite loans up to Rs. 2.5 million to the tiny sector and continue to charge one per cent concessional interest rate.

v) SIDBI will continue to give concessional rate of refinance to the tiny sector, which is now at 10.5 percent as compared to 12 percent for the SSI sector. This policy will continue.

vi) In the National Equity Fund Scheme, the project cost limit will be raised from Rs. 2.5 million to Rs. 5.0 million. The soft loan limit will be retained at 25 per cent of the project cost subject to a maximum of Re. 1.0 million per project. Assistance under the NEF will be provided at a service charge of 5 per cent per annum. Under ht National Equity Fund Scheme, 30 per cent of the investment will be earmarked for the Tiny Sector.

vii) The Integrated Infrastructure Development (IID) Scheme will progressively cover all areas in the country with

50 per cent reservation for rural areas. Under this Scheme, 50 per cent of the plots will be earmarked for the tiny sector against the 40 per cent done earlier.

viii) Under the National Programme for Rural Industrialization, cluster development is being taken up by KVIC, SIDO, SIDBI and NABARD. The major beneficiaries of the cluster development programme will be tiny sector units. The sponsoring organization for each cluster will provide for design development, capacity building, technology intervention and consortium marketing. A cluster development fund will be created under the Plan.

ix) Under the capital subsidy of scheme of 12 per cent for investment in technology up-gradation in select sector preference will be given to the tiny sector.

x) Preference will be given to the tiny sector while organizing buyer-seller meets, vendor development programmes and exhibitions.

Credit is the most critical input to production. After the nationalization of banks, the availability of credit to small entrepreneurs has been increasing continuously. While term loan requirement are met by the State Financial Corporations (SFCs), the working capital needs are met by the commercial banks. SSI sector has been brought under "priority sector lending programme" of nationalized banks.

Considering the important role that the small scale and Agro and rural industries play in Indian economy Government created and exclusive new Ministry of Small Scale Industries and Agro and Rural Industries in October 1999. The Government divided the ministry into two Ministries in order to provide focused attention on the development of small-scale industries and rural and agro-industries separately.

3.4 Promotional Institutions: -

There are various institutions and organizations, which are promoted by the central Government and state Government as well as industry associations for the promotion of SSI sector in the country. They are as follows.[24]

The main central Government organizations are:

1. Small Industrial Development Bank Of India: - the SIDBI was established under the small industries development bank of India Act 1989, as a wholly owned subsidiary of

IDBI. It commenced its operations from April 2, 1990 by taking over outstanding portfolio and activities of IDBI pertaining to small-scale sector. SIDBI is operating through its head office at Lucknow with a network of five regional and twenty-seven branch offices in the country. Since its inception, SIDBI is doing well in the area of financing small-scale industries. The main objective of SIDBI is to serve as a principal financial institution for promotion, financing, development of industries in the small-scale sector. The SIDBI was initially functioning as a refinancing institution has now diversified its activities and introduced several new schemes to meet the varying needs of the small-scale sector. The SIDBI now offers a wide range of financial assistance through its direct finance, refinance, bills finance, equity finance and other schemes of assistance besides support services.

2. Small Scale Industries Board (SSIB): - SSI Board was set up in 1954. It is an apex advisory body formed to give advice to the Government on all issues concerned to SSI

sector. The board facilitates the co-ordination and inter-institutional linkage for the development of SSI sector.

3. Small Industries Development Organization (SIDO): - SIDO was established in 1954 upon the recommendations of the Ford Foundation team of the Government of India, which also suggested the creation of a support networks for the development of SSIs. It is headed by the Development Commissioner (SSI), who is an ex-officio Additional Secretary to the Government of India. That is the reason, the office of Development Commissioner is commonly known as the SIDO.

SIDO is the nodal organization, which implements central Government policies. It plays a constructive role in strengthening the SSI sector. SIDO has been working under the department of Agro and Rural industries since 1991. It operates through a network of 28 Small Industries Services Institutes (SISIs), 30 branch SISIs, and a host of other centers. These centers includes 4 Regional Testing Centers, 8 Field Testing Stations, 10 Tool Rooms, 2 Central Footwear

Training Institutes, 1 Production Center, 6 Product cum Process Development Centers and 3 Training Institutes.

4. National Small Industries Corporation (NSIC): - The Government of India established NSIC in 1955. It plays a very important role in the promotion of SSIs. The main aim of NSIC is to promote, aid and foster the growth of SSIs in the country. NSIC helps the SSI sector in the country through its various programmes and projects. Thus, NSIC continues to remain at the forefront of industrial development.

During the last four decades when there is transition and growth in the SSI sector, NSIC has played a significant role through modernization, up-gradation of technology, quality consciousness, strengthening linkages with large and medium scale enterprises and boosting exports of products from small enterprises. Moreover, NSIC has been able to provide leasing and hire purchase facilities and other services to SSIs extensively.

Some of the main services provided by NSIC are:

- Machinery and Equipment on hire purchase basis.
- Machinery and equipment through lease scheme.

- Financial assistance scheme.
- Assistance for procurement of raw material
- Marketing assistance
- Technology transfer center.
- Government store purchase programme.

The main State Government agencies are:

The Commissioner/Director of Industries implements the policies for the promotion and development of small scale, cottage, medium and large-scale industries. The SSI policy of the central Government act as guidelines but each state bring forth its own policy and package of incentives. The commissioner or Director of Industries in all states or union territories looks after the activities of field officers viz. District Industries Center (DIC) at the district level.

1. District Industries Center (DICs): - DIC programme was initiated in May 1978 for promotion of small-scale and cottage industries beyond big cities and state capitals to the district headquarters. It was started as a centrally sponsored scheme with the main aim of developing small, tiny and cottage sector industries in the country. The central

Government withdrew the sponsorship in 1993-94 and at that time there were 430 centrally approved DICs, which covered almost all the districts of the country (leaving aside the metropolitan cities). Now, at present DICs are functioning under respective state budgetary provisions.

DICs extend services of the following nature: -

- Economic investigation of local resources.
- Supply of machinery and equipment.
- Provision of raw material.
- Arrangement for credit facilities.
- Marketing
- Quality inputs
- Consultancy and extension services.

2. State Financial Corporations (SFCs): - SFCs were set up in 1951 under the SFCs Act. It plays an important role in the development of small and medium enterprises. The main aims of SFCs are to finance and promote small and medium enterprises in their respective states. This is done for achieving balanced regional growth, increase in investment,

generate employment and widen the ownership base of industry.

3. State Small Industrial Development Corporations (SSIDCs): - SSIDCs were set up under the companies Act 1956 as state Government undertakings. They are mainly concerned with the needs of small, tiny and village industries in the state or union territories. SSIDCs are operationally flexible and can undertake a variety of activities for the overall development of the SSI sector. There are at present 22 SSIDCs in the country.

Other state level agencies that extend facilities for SSI promotion includes:

- State Co-operative Banks
- Regional Rural Banks
- State Export Corporations
- Agro Industries Corporations
- Handloom and Handicrafts Corporation.

The other agencies are as follows:

i) Technical Consultancy Organization (TCOs): - TCOs were established during the seventies and eighties by all India financial institutions in association with state level financial development institutions and commercial banks in order to meet the consultancy needs of small and medium industries and new entrepreneurs.

ii) National Institute for Entrepreneurship and Small Business Development (NIESBUD): - NIESBUD was established by the Ministry of Industry, Government of India in 1983. It is an apex body for coordinating and overseeing the activities of various institutions or agencies engaged in entrepreneurship development especially in the area of small-scale industry.

NIESBUD performs the following activities: -

- Conducts training programmes for trainees and entrepreneurs preparing model syllabi for training various target groups.
- Undertaking research or documentation.
- Conducting seminars.
- Developing training as well as teaching aids.

iii) National Institute of Small Industry Extension and Training (NISIET): - NISIET was set up in the early 1950s at

Hyderabad. It has been providing training to entrepreneurs, managers and various development functionaries of state Governments, financial institutions and other agencies. NISIET organizes about 45 national level and 15 international level programmes every year. Moreover, it also acts as an important center for small units and undertakes research and consultancy for small industry development.

iv) Export Promotion Councils: - SSIs generally face problems in exports and marketing of products in overseas market. Therefore, to overcome these problems export promotion councils were set up so that consortium approach could be adopted. The export Promotion Councils for different industries help in the promotion of exports of their member units. This is done through direct marketing, developing vendor relations, opening respective sales outlets abroad etc. as a collective export marketing strategy. The main aim of different councils is to increase the exports from the sector.

v) Federation of Indian Exporters Organization (FIEO): - FIEO was set up in October 1965, by the Ministry of Commerce, Government of India. It represents the Indian entrepreneurs spirit of enterprise in the global market. FIEO is an apex body of Indian Export Promotion Organization and it works as a partner in the Indian Export Promotion Process. It has kept pace with the changing economic scenario and helps in India's expanding national trade.

vi) Development of Export Processing Zones/Industrial Parks: -

a) Export Processing Zones: - EPZ and EOUs (Export oriented Units) are under the preview of the Ministry of Commerce, Government of India. Though EOUs were set up out side EPZs but they were set up to provide special incentives to companies for undertaking manufacturing activities for exports.

EPZs are special areas designated for providing export production or the processing of manufactured products at a low cost.

b) Industrial Parks: - the new theme on the specialized industrial clusters led to the development of industrial of technology parks. These were aimed at both for the domestic and the export market.

vii) Development of Clusters: - The Government has developed clusters in various parts of the country so that industries grow in concentrated and in specific locations. These industries grow due to the easy availability of raw materials or trained artisans or proximity to the market. Clusters help in reducing costs and suppliers find easy to supply raw materials equipments, machinery spares, repair and other sources to units to which otherwise would not have been possible. Moreover, they also encourage specialization in manufacturing process, inter firm relationships in production activities, division of labour, sharing of information/experiences. These things led to increase in productivity on a continued basis and it also develops a network of sub-contracting firms.

3.5 Conclusion: -

To conclude small scale industries sector has emerged as a dynamic and vibrant sector of the economy during the past 55 years. Due to several policy initiatives and policy support measures taken by the Government from time to time, the sector has contributed to the overall growth of the gross domestic product as well as in terms of employment generation and export. Performance of the small-scale sector, which forms a part of total industrial sector, therefore, has direct impact on the growth of the national economy. Small Scale Enterprises has vast potential and has recognized as an engine of growth for the new millennium.

Therefore, the policy measures taken up during the previous plan period would need to be further strengthened as the small scale industry sector is more vulnerable to the pressures of competition arising from economic liberalization, removal of Quantitative Restriction and WTO related measures.

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Chapter -IV

Trends of Small Scale Industry Sector Exports

4.1 Introduction: -

We have seen in the earlier chapters that the small-scale industry sector is strategically important in the Indian economy. The SSI sector has emerged as a dynamic and vibrant sector of the Indian economy in recent years. The sector provided employment to around 200 lakh persons in 2002-03, which is second only to agriculture. In 2002-03, this sector accounted for about 40 per cent of the gross value of the output in the manufacturing sector and about 34 per cent of the total exports of the country.

In the current chapter we will have a detailed analysis of the SSI sector exports from India during the period 1991-92 to 2002-03. Performance of SSI sector exports vis-à-vis the India's total exports is analysed in section 4.2 and in the next section composition of SSI sector exports is dealt. The final section has the concluding remarks of the chapter.

4.2 Performance of SSI Exports: -

Exports from SSI sector was Rs.13883 crore in 1991-92 which increased to Rs.86013 crore in 2002-03 registering a compound annual growth rate of 18.03 per cent during the study period. Table 4.1 shows the comparative growth of SSI sector against the India's total exports.

It can be seen in the figure 4.1 that exports from SSI sector during the period under review fared better than total exports. India's total exports increased from Rs.44041 crore in 1991-92 to Rs.255137 crore in 2002-03 or increased by about 5.8 times. While exports from SSI sector rose to Rs.86013 crore in 2002-03 from Rs.13883 crore in 1991-92 registering a growth of 6.2 times. The share of SSI sector exports in total exports was 31.5 per cent in 1991-92, which has risen to 33.7 per cent in 2002-03. The average contribution of SSI sector exports to the country's total exports earnings stood at 34 per cent for whole period of study.

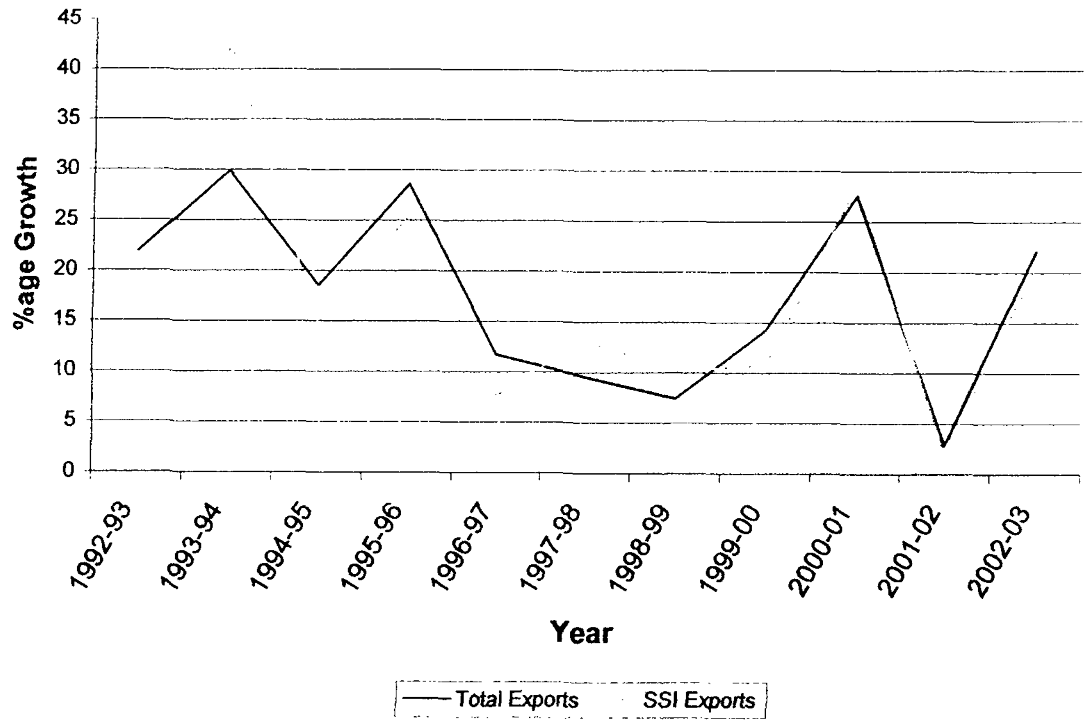
However, when we look into the year-to-year growth rate of SSI sector exports over the period under review, shows that the growth did not occur in an even and uniform manner. In fact, it was characterised by wide fluctuations. In 1993-94 the SSI sector exports increased by 42.3 per cent, which was the highest growth rate during the whole period of study. Consequently in the same fashion India's total exports

Table: -4.1
Trends in India's SSI Exports- 1991-92 To 2002-2003

Year	India's Total Exports (Rs. Crore)	% Increase in Total Exports	Exports of the SSI (Rs. Crore)	% Increase in Exports from SSI	Share of SSI Exports in Total exports (%)
1991-92	44041	-	13883	-	31.5
1992-93	53688	21.9	17785	28.1	33.1
1993-94	69751	29.9	25307	42.3	36.3
1994-95	82674	18.5	29068	14.9	35.2
1995-96	106353	28.6	36470	25.5	34.3
1996-97	118817	11.7	39249	7.6	33.0
1997-98	130100	9.5	44442	13.2	34.2
1998-99	139752	7.4	48979	10.2	35.0
1999-00	159561	14.2	54200	10.7	34.0
2000-01	203571	27.6	69797	28.8	34.3
2001-02	209018	2.8	71244	2.1	34.1
2002-03	255137	22.1	86013	20.7	33.7

Source:-1.http://www.smallindustryindia.com/ssiindia//statistics/export-gr.htm accessed 2/08/2004. SSI Export data from 1991-92 To 2002-03
2.Economic Survey, 2003-04 MOF, Economic Division, GOI, Appendix Table 7.1(A) P. S-78. Total Export data from 1991-92 To 2002-03.

Figure - 4.1
Comparative Annual Growth Rates of Total and SSI Exports



recorded the highest rate of growth in the same year. The lowest growth rate recorded for both the SSI sector exports and the India's total exports in 2001-02 was 2.1 per cent and 2.8 per respectively. SSI sector exports and the total exports increased positively during 1991-92 to 2002-03. But they increased in a fluctuating manner. The total exports increased at an average annual rate of growth of 17.7 per cent during the study period whereas SSI sector exports rose at an average annual rate of growth of 18.6 per cent during the same period.

Thus, the rate of growth registered by India's total exports during the period under study was lower than the growth rate attained by exports from SSI sector. This is also proved if we compare the compound annual growth rate of small-scale industry sector exports and the total exports of the country during the study period. During this period India's total exports increased at a compound growth rate of 17.32 per cent per annum, while exports from SSI sector grew at a corresponding rate of growth of 18.03 per cent per annum.

4.3 Composition of SSI sector exports: -

In the preceding section we had an aggregate view of SSI sector exports against the background of India's overall exports. In this part we make an attempt to consider how the overall trends relate to the performance of the principal export categories/groups. Table 4.2 shows the trend of SSI sector exports by two major categories- non-traditional and traditional goods.

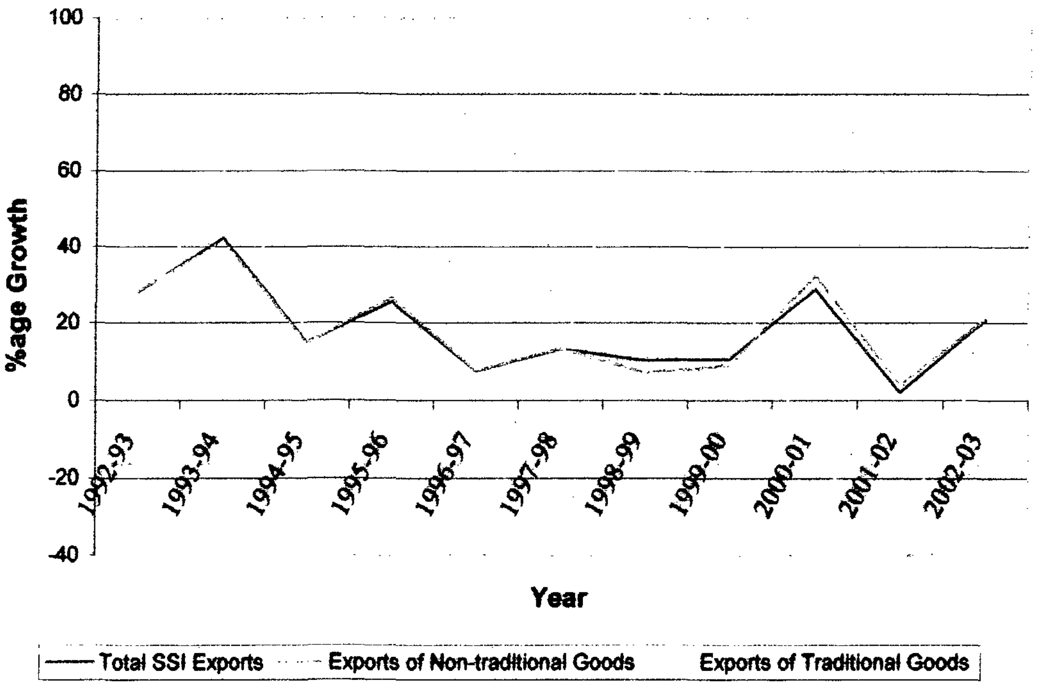
The figure 4.2 shows that between 1991-92 to 2002-03 non-traditional goods registered positive rate of growth. It rose from Rs.13282.67 crore in 1991-92 to Rs.83382 crore in 2002-03 registering a growth of 6.3 times. While the rate of growth in traditional goods recorded negative during two years and fluctuated more rapidly than non-traditional goods. It rose to Rs.2630 crore in 2002-03 from Rs.600.73 crore or increased by 4.4 times. Moreover, the annual average rate of growth in exports both for non-traditional and traditional goods has been almost equal during the period under study. Exports of non-traditional goods increased at an annual average rate of growth of 18.73 per cent compared to the

Table: - 4.2
Trends in India's SSI Exports By Major Categories

Year	Total SSI Exports		Non-Traditional Goods		Traditional Goods	
	Value (Rs.Crore)	% Rate of growth	Value (Rs.Crore)	% Rate of growth	Value (Rs.Crore)	% Rate of growth
1991-92	13883.40	-	13282.67	-	600.73	-
1992-93	17784.8	28.10	17052.6	28.38	732.2	21.88
1993-94	25307.2	42.29	24137.0	41.54	1170.2	59.81
1994-95	29068.2	14.86	27690.4	14.72	1377.8	17.74
1995-96	36470.2	25.46	35067.0	26.63	1403.2	1.84
1996-97	39248.4	7.61	37754.5	7.66	1493.9	6.46
1997-98	44442.1	13.23	42810.1	13.39	1632.0	9.24
1998-99	48979.13	10.21	45890.41	7.19	3088.72	89.26
1999-00	54200.47	10.66	50048.15	9.06	4152.32	34.43
2000-01	69796.50	28.77	66301.53	32.47	3494.7	-15.83
2001-02	71243.99	2.07	68880.32	3.89	2363.67	-32.36
2002-03	86013	20.73	83382.0	21.05	2630.0	11.27

Source: 1. Handbook of Industrial Policy and Statistics 2001, Office of the Economic Adviser Ministry of Commerce and Industry GOI, New Delhi, Table No-55 P.394 for 1991-92 data.
2. Data from 1992-93 To 2002-03 taken from Appendix I

Figure - 4.2
Comparative Annual Growth Rates Of SSI, Non-traditional and Traditional Goods Exports



growth rate of 18.52 per cent per annum for the traditional goods during 1991-92 to 2002-03.

However, when we gaze at the compound annual growth rate of exports of traditional and non-traditional goods the difference is significant. During the period 1991-92 to 2002-03 the compound growth rate of non-traditional exports from SSI sector calculated to be 18.18 per cent whereas traditional exports grew by 14.37 per cent per annum.

Thus, non-traditional goods exports contributed more to the total SSI sector exports than the traditional goods. It has established itself as important exportable. The fact is also established from their share in the total SSI sector exports.

We may have a look in the table 4.3 which shows that the share of non-traditional group in the total SSI sector exports increased from 95.67 per cent in 1991-92 to 96.94 per cent in 2002-03. As against this the share of traditional goods declined to 3.06 per cent in 2002-03 from 4.33 per cent in 1991-92.

Hence, the above analysis prove the point that the export efforts of SSI sector in India have been in line with

Table: - 4.3

Percentage Share of Traditional and Non-Traditional Commodity Group in Total SSI Exports: 1991-92 to 2002-03

Year	Non-Traditional (%)	Traditional (%)	Total
1991-92	95.67	4.33	100
1992-93	95.89	4.11	100
1993-94	95.38	4.62	100
1994-95	95.26	4.74	100
1995-96	96.15	3.85	100
1996-97	96.19	3.81	100
1997-98	96.33	3.67	100
1998-99	93.69	6.31	100
1999-00	92.34	7.66	100
2000-01	94.99	5.01	100
2001-02	96.68	3.32	100
2002-03	96.94	3.06	100

Source: - Calculated from Table 4.2 and Appendix I the required emphasis on non-traditional commodity group exports which is also our national objective. To provide further evidence regarding this trend in the export pattern, appendix-1 outlines changes in the rupee value of SSI sector exports of selected traditional and non-traditional goods. The year 1991-92 is left due to non-availability of data of total exports of these product groups. The period taken for comparison is 1992-93 to 2002-03. The commodities selected for this purpose under traditional and non-traditional groups are as follows:

Traditional goods: -

- Cashew kernel and cashew nutshell liquid
- Lac, and
- Spices, spices oils, oleoresins.

Non-Traditional goods: -

- Engineering goods
- Basic chemicals, pharmaceuticals and cosmetics
- Chemicals and allied products
- Plastic products
- Finished leather and leather products

- Marine products
- Processed foods
- Woollen garments and knitwear
- Sports goods
- Readymade garments
- Rayon and synthetic products
- Processed Tobacco, Snuff and Bidi, and
- Electronic and Computer software.

It can be observed from appendix-1 that during the period under study the export earnings of non-traditional goods recorded higher expansion compared to that of traditional goods. The export earnings of non-traditional goods increased to Rs.83382 crore in 2002-03 from Rs.17052.6 crore in 1992-93 registering a compound growth rate of 17.2 per cent per annum. While the traditional goods registered a lower compound growth rate of 13.64 per cent per annum and increased from Rs.732.2 crore in 1992-93 to Rs.2630 crore in 2002-03 in absolute terms.

However, within the two broad categories export performance varied substantially from commodity to commodity.

Table: - 4.4
Percentage Share of Principal Items of Small-Scale Industry Exports of India: 1992-93 to 2002-03

(In Per cent)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
A. Non -Traditional											
1. Engineering Goods	10.96	8.16	7.99	8.29	8.64	9.9	9.83	9.99	10.93	11.65	14.53
2. Basic Chemicals, Pharmaceutical & Cosmetics	11.2	9.61	9.21	8.23	11.04	14.63	6.99	11.34	11.03	11.28	11.23
3. Chemicals & allied Products	0.67	0.69	0.82	0.69	0.9	1.08	0.99	0.95	0.76	0.6	3.9
4. Plastic Products	0.99	1.06	1.23	0.73	1.82	2.22	1.95	1.81	2.44	2.64	2.17
5. Finished Leather &Leather Products	16.61	13.09	15.14	13.46	8.15	7.34	7.02	6.63	6.71	8.02	7.1
6. Marine Products	2.85	2.41	2.29	1.71	2.43	6.06	2.46	4.17	3.87	3.67	3.78
7. Processed Foods	4.73	6.78	6.06	14.96	12.4	10.4	12.77	8.1	8.9	9.68	11.25
8. Woollen Garments & Knitwear	1.17	1.19	1.1	2.46	2.2	3.04	3.25	3.7	3.86	3.29	1.42
9. Sports Goods	0.53	0.52	0.62	0.57	0.55	0.54	0.51	0.43	0.36	0.39	0.37
10. Ready-made Garments	44.74	46.51	45.55	39.78	42.62	37.24	45.34	39.82	38.15	34.94	27.21
11. Rayon & Synthetic Products	0.09	4.59	4.87	4.62	4.11	3.07	1.47	1.63	1.81	1.83	1.73
12. Processed Tobacco & Snuff and Bidi	1.35	0.77	0.38	0.65	1.33	0.81	1.11	1.36	0.91	0.79	0.78
13. Electronic & Computer Software	-	-	-	-	-	-	-	2.39	5.26	7.89	11.46
Total of A	**95.89**	**95.38**	**95.26**	**96.15**	**96.19**	**96.33**	**93.69**	**92.34**	**94.99**	**96.68**	**96.94**

(Continued)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
B. Traditional Products 1. Cashew Kernel & Cashew Nutshell liquid	3.61	4.06	4.28	3.38	3.27	3.21	3.29	4.53	2.69	2.29	2.34
2. Lac	0.29	0.35	0.25	0.27	0.24	0.14	0.14	0.15	0.19	0.2	0.12
3. Spices, Spices oils, Oleoresins	0.21	0.21	0.21	0.2	0.3	0.32	2.87	2.99	2.13	0.83	0.6
Total of B	**4.11**	**4.62**	**4.74**	**3.85**	**3.81**	**3.67**	**6.31**	**7.66**	**5.01**	**3.32**	**3.06**
Grand Total (A+B)	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: - Calculated from Appendix I

Among traditional goods exports of cashew kernel and cashew nutshell liquid and spices, spices oils, oleoresins experienced steadier trend barring last three years while that of lac exhibited a fluctuating trend in absolute terms during the period under study. Within non-traditional categories exports of engineering goods, basic chemicals, pharmaceuticals and cosmetics, chemicals and allied products, sports goods, and electronic and computer softwear have shown roughly continuous and steadier trend. The remaining principal non-traditional exports witnessed fluctuating trends

Table 4.4 gives the percentage share of the selected traditional and non-traditional items in the total export from the SSI sector. The share of traditional goods declined by almost one per cent from 4.11 per cent in 1992-93 to 3.06 per cent in 2002-03 whereas, the share of non-traditional goods increased by a little more than one per cent during the study period.

The share of individual items in the total SSI sector exports varied widely during the period of study. Within traditional product group, the share of cashew kernel and cashew nutshell liquid and lac fluctuated largely and their share declined in 2002-03 in comparison to the initial year 1992-93. However, the share of spices, spices oils, oleoresins increased slightly from 0.21 in 1992-93 to 0.6 per cent in 2002-03. Within the non-traditional product group the share of finished leather and leather products and ready-made garments declined drastically from 16.61 percent and 44.74 per cent in 1992-93 to 7.1 per cent and 27.21 per cent in 2002-03 respectively. The share of sports goods and processed tobacco, snuff and Bidi also declined significantly. The share of electronic and computer software increased continuously from 2.39 per cent in 1999-2000 to 11.46 per cent in 2002-03. The share of other remaining products though increased within 1992-93 to 2002-03. But their share fluctuated widely during the period.

The enlarging importance of some of the selected items of export from the SSI sector is also established by the contribution in the total exports of the commodity concerned from India. Appendix II shows India's total exports of some principal commodities during 1992-93 to 2002-03. Table 4.5

shows the contribution of SSI sector in India's exports of some principal commodities during the same period.

The export performance of SSI sector vis-à-vis the total exports of selected commodities is analysed with the given information in the Appendix I and II and table 4.5 and 4.6 as follows:

1. Engineering Goods: -

Exports of engineering goods from SSI sector were Rs. 1950 crore in 1992-93, which grew to Rs. 12500 crore in 2002-03 registering a compound growth rate of 20.42 per cent per annum. Total exports of this item registered lesser compound growth rate of 19.43 per cent per annum. The share of SSI sector export of engineering goods increased marginally from 30.23 per cent in 1992-93 to 32.81 percent in 202-03.

2. Basic Chemicals, Pharmaceuticals and Cosmetics: -

In 1992-93, export of this category from the SSI sector amounted to Rs. 1992.8 crore, which rose to Rs. 9659 crore in 202-03. It registered a compound growth rate of 17.1 per cent per annum, which is lower than the total exports growth of this category during 1992-93 to 2002-03. Its share in total

Table: - 4.5

Percentage Share of Small-Scale Industry in India's Exports of Some Principal Commodities: 1992-93 to 2002-03

(In Per cent)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
A. Non –Traditional											
1. Engineering Goods	30.23	23.48	23.66	24.01	22.78	26.87	28.62	27.13	27.8	28.95	32.81
2. Basic Chemicals, Pharmaceutical & Cosmetics	55	55	49.99	37.67	45.6	59.99	29.05	44.46	44.5	44.5	44.51
3. Chemicals & allied Products	2.81	3.3	3.88	3.35	4.44	5.6	5.83	5.46	4.6	3.5	33.46
4. Plastic Products	45.02	32.77	53.3	15.94	35.3	42.12	44.7	38.22	41.67	41.67	41.67
5. Finished Leather &Leather Products	80	80	90	85.22	58	55.54	49.93	52.59	52.99	63.22	69.57
6. Marine Products	28.67	24.35	18.59	17.83	23.12	57.31	26.03	44.19	42.5	45.27	47.25
7. Processed Foods	64.99	60	60	68.78	65	65	64.99	64.99	65	64.99	70
8. Woollen Garments & Knitwear	34.99	37.43	32.45	78.21	51.26	69.45	85	95.09	95	94.99	95
9. Sports Goods	100	100	100	100	100	100	100	100	100	100	100
10. Ready-made Garments	89.99	95	94.99	97.97	100	89.99	100	90	90	81	90
11. Rayon & Synthetic Products	-	62.99	57	53.99	50	36.41	17.7	17.95	18.99	19	19
12. Processed Tobacco & Snuff and Bidi	47.29	39.88	41.75	56.44	62.95	33.75	67.42	69.93	70.13	66.59	63.33
13. Electronic & Computer Software	-	-	-	-	-	-	-	5.4	9.41	13.12	18.93
Total of A	**54.17**	**54.26**	**54.05**	**52.67**	**50.9**	**52.72**	**51.28**	**41.41**	**40.34**	**40.56**	**43.34**

(Continued)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
B. Traditional Products 1. Cashew Kernel & Cashew Nutshell liquid	85.76	100	100	100	100	100	99.99	100	100	100	100
2. Lac	97.91	100	100	98.99	99.04	98.92	98.99	98.99	100	100	100
3. Spices, Spices oils, Oleoresins	9.99	9.99	9.99	9.99	10	9.99	80	80	79.99	34.95	28.77
Total of B	**61.85**	**70.65**	**71.6**	**67.88**	**58.43**	**56.27**	**89.76**	**91.1**	**90.38**	**68.1**	**67.35**
Grand Total (A+B)	**54.44**	**54.26**	**54.69**	**53.12**	**51.15**	**52.85**	**52.71**	**43.22**	**41.49**	**44.11**	**43.82**

Source: - Calculated from Appendix I and Appendix II.

Table: - 4.6

CAGR and Percentage Share of SSI Exports in Total Exports of Selected Commodities from India

(Rs. Crore)

S. No. / Product Group	Total Exports		Exports from SSI		Percentage Share of Exports from SSI		CAGR % for Total Exports	CAGR % for SSI Exports
	1992-93	2002-03	1992-93	2002-03	1992-93	2002-03	1992-2003	1992-2003
A. Non -Traditional								
1. Engineering Goods	6450	38093	1950	12500	30.23	32.81	19.43	20.42
2. Basic Chemicals, Pharmaceutical & Cosmetics	3623.2	21701	1992.8	9659	55	44.51	19.60	17.10
3. Chemicals & allied Products	4229.4	10027	119	3355	2.81	33.46	9.02	39.64
4. Plastic Products	389.6	4470	175.4	1863	45.02	41.67	27.63	26.65
5. Finished Leather &Leather Products	3692.4	8780	2954	6108	80	69.57	9.05	7.53
6. Marine Products	1767.4	6881	506.8	3251	28.67	47.25	14.56	20.43
7. Processed Foods	1293	13828	840.4	9680	64.99	70	26.74	27.68
8. Woollen Garments & Knitwear	594.7	1289	208.1	1225	34.99	95	8.04	19.40
9. Sports Goods	93.6	317	93.6	317	100	100	12.97	12.97
10. Ready-made Garments	8840.8	26005	7956.7	23404	89.99	90	11.39	11.39
11. Rayon & Synthetic Products	-	7811	15.7	1484	-	19	-	57.60
12. Processed Tobacco & Snuff and Bidi	507.7	1066	240.1	675	47.29	63.33	7.70	10.89
13. Electronic & Computer Software	-	52100	-	9860	-	18.93	29.44	96.58
Total of A	**31481.8**	**192369**	**17052.6**	**83382**	**54.17**	**43.34**	**19.84**	**17.20**

(Continued)

S. No. / Product Group	Total Exports		Exports from SSI		Percentage Share of Exports from SSI		CAGR % for Total Exports	CAGR % for SSI Exports
	1992-93	2002-03	1992-93	2002-03	1992-93	2002-03	1992-2003	1992-2003
B. Traditional Products 1. Cashew Kernel & Cashew Nutshell liquid	749.2	2015	642.5	2015	85.76	100	10.40	12.11
2. Lac	52.6	101	51.5	101	97.91	100	6.74	6.97
3. Spices, Spices oils, Oleoresins	382.1	1790	38.2	515	9.99	28.77	16.70	29.71
Total of B	**1183.9**	**3905**	**732.2**	**2630**	**61.85**	**67.35**	12.68	13.64
Grand Total (A+B)	**32665.7**	**196275**	**17784.8**	**86013**	**54.44**	**43.82**	19.64	17.07

Source: – Calculated from Appendix I and Appendix II exports also declined from 55 per cent to 44.51 per cent during the same period.

3. Chemicals and Allied Products: -

Exports of chemical and allied products from SSI sector amounted to Rs. 119 crore in 1992-93, which rose to Rs. 3355 crore in 2002-03. It registered a compound growth rate of 39.64 per cent per annum, which is far more than the total exports compound growth rate of 9.02 per cent per annum. It's share in total exports also increased from 2.81 per cent in 1992-93 to 33.46 per cent in 2002-03. However, the exports of this category in 2002-03 was very high in comparison to the earlier years exports which made the growth rate and its share in total exports very high.

4. Plastic Products: -

Plastic products export from SSI sector was Rs. 175.4 crore in 1992-93 which grew to Rs. 1863 crore in 2002-03, registering a compound annual growth rate fo 26.65 per cent during the same period. This growth rate was little lower than the total export growth of this item. Its share in total export declined to 41.67 per cent in 2002-03 from 45.02 per cent in 1992-93.

5. Finished Leather and Leather Products: -

Exports of this category from SSI sector fluctuated during the study period. It was Rs. 2954 crore in 1992-93 which increased to Rs. 6108 crore in 2002-03 recorded a compound annual growth rate of 7.53 per cent during the same period. However, the compound growth rate of total exports of this item recorded a higher growth of 9.05 per cent per annum. The share of SSI sector exports in total exports of this item also declined drastically from 80 per cent in 1992-93 to 69.57 per cent in 2002-03.

6. Marine Products: -

Exports of marine products from SSI sector increased relatively in a smooth manner and rose to Rs. 3251 crore in 2002-03 from Rs. 506.8 crore in 1992-93. It recorded a significantly higher compound annual growth rate vis-à-vis the total exports of this product. It registered a 20.43 per cent per annum growth rate during the period under study. The share of SSI sector exports in total exports of marine products increased from 28.67 per cent in 1992-93 to 47.25 per cent in 2002-03.

7. Processed Foods: -

In 1992-93, processed food export from SSI sector was Rs. 840.4 crore that increased almost continuously to Rs. 9680 crore in 2002-03. It increased at a compound annual growth rate of 27.68 per cent, which was higher marginally to the total export growth of this item. In 2002-03 out of a total export of processed food which was Rs. 13828 crore, the share of SSI sector was 70 per cent. This share was 64.99 per cent in 1992-93.

8. Woollen Garments and Knitwear: -

Exports of this product from SSI sector were Rs. 208.1 crore in 1992-93 that rose significantly to Rs. 1225 crore in 2002-03, registering a compound growth rate of 19.4 per cent per annum. However, total export of this item increased only by 8.04 per cent per annum during 1992-93 to 2002-03.

The share of SSI sector in total exports of this product increased manifold from 34.99 per cent in 1992-93 to 95 per cent in 2002-03.

9. Sports Goods: -

Exports of sports goods from SSI sector was Rs. 93.6 crore in 1992-93 which increased to Rs. 317 crore in 2002-03 registering a compound annual growth rate of 12.97 per cent. The share of SSI sector in total exports of sports product was 100 per cent throughout the study period.

10. Ready-made Garments: -

Ready-made garments exports from SSI sector were increased from Rs. 7956.7 crore in 1992-63 to Rs. 23404 crore in 2002-03. The rate of growth in exports both for total exports and SSI sector was 11.39 per cent during the period under study. The share of SSI sector export in total exports of ready-made garment remained same in 1992-93 and 2002-03. However, it fluctuated between these periods.

11. Rayon and Synthetic Products: -

In 1992-93, exports of Rayon and synthetic products were Rs. 15.7 crore, which rose significantly to Rs. 1484 crore in 2002-03 registering a very high compound growth rate of 57.6 percent per annum during the same period. The share of SSI Sector in total exports declined sharply from 62.99 per cent in 1993-94 to 19 per cent in 2002-03.

12. Processed Tobacco, Snuff and Bidi: -

In 1992-93 exports of this category from SSI sector increased from Rs. 240.1 crore to Rs. 675 crore in 2002-03.

It registered a compound annual growth rate of 10.89 per cent compared to the total export growth of 7.7 per cent only during the study period. The share of SSI sector in total exports of this product increased significantly form 47.29 per cent in 1992-93 to 63.33 per cent in 2002-03.

13. Electronic and Computer Software: -

Electronic and computer software export is a new entry. Export of this item from SSI sector was Rs. 1298 crore in 1999-00 which increased significantly to Rs. 9860 crore in 2002-03 registering a compound annual growth rate of 96.58 per cent during 1999-00 to 2002-03 only. The share of SSI sector in total export of this category increased from 5.4 per cent in 1999-00 to 18.93 per cent in 2002-03.

Total non-traditional exports from SSI sector amounted Rs.17052.6 crore in 1992-93 which increased to Rs.83382 crore in 2002-03. It registered a compound annual growth rate of 17.20 per cent during the same period. The relative contribution of SSI sector in total exports of such items from India declined from 54.17 per cent in 1992-93 to 43.34 per cent in 2002-03.

14. Cashew kernel and Cashew nutshell liquid: -

Exports of this item from SSI sector were Rs. 642.5 crore in 1992-93 which increased to Rs. 2015 crore in 2002-03 registering a compound growth rate of 12.11 per cent per annum during the same period. The share of SSI sector exports in total exports of this product was 100 per cent during whole period except in 1992-93 when it was 85.76 per cent.

15. Lac: -

In 1992-93, exports of lac from SSI sector were Rs. 51.5 crore, which increased to Rs. 101 crore in 2002-03. It registered a compound growth rate of 6.97 per cent during the study period. The share of SSI sector in total exports of lac was almost 100 per cent during the same period.

16. Spices, Spices oils, Oleoresins: -

Exports of this category from SSI sector increased from Rs. 38.2 crore in 1992-93 to Rs. 515 crore in 2002-03 registering a compound growth rate of 29.71 percent per annum. While total exports from this category recorded a compound annual growth rate of 16.7 per cent during 1992-

93 to 2002-03. The share of SSI sector in total exports of this item remained static at 10 per cent upto 1997-98, it rose sharply to 80 per cent in 1998-99, then it started declining and recorded 28.77 per cent share in 2002-03.

Total traditional products exports from SSI sector were Rs. 732.2 crore in 1992-93 and increased to Rs. 2630 crore in 202-03. It registered a compound annual growth rate of 13.64 per cent during the period under study. The relative share of SSI sector in total exports of traditional product increased from 61.85 per cent in 1992-93 to 67.35 per cent in 2002-03.

4.4 Conclusion: -

The rate of growth registered by India's total exports was lower than the growth rate attained by exports of SSI Sector during the study period. Between two broad categories of SSI sector exports, non-traditional goods exports contributed more to the total SSI sector exports than the traditional goods. Moreover, within the SSI sector six items alone accounted for almost 83 per cent of total exports in 2002-03. These items were ready-made garments (27.21 per cent), engineering goods (14.53 per cent), electronic and computer software (11.46 per cent), processed foods (11.25

per cent), basic chemicals, pharmaceuticals and cosmetics (11.23 per cent), finished leather and leather products (7.1 per cent).

The contribution from SSI sector in total exports has been significant in commodity groups: sports goods (100 per cent), woollen garments and knitwear (95 per cent), ready-made garments (90 per cent), processed foods (70 per cent), finished leather and leather products (69.57 per cent), processed tobacco, snuff and Bidi (63.33 per cent), marine products (47.25 per cent), basis chemicals, pharmaceuticals and cosmetics (44.51 per cent), plastic products (41.67 per cent).

In traditional segment, the product group cashew kernel and cashew nutshell liquid and lac shared 100 per cent in country's export.

During the post liberalisation period, the share of SSI sector in total export declined by 10.49 per cent in basic chemicals, pharmaceuticals and cosmetics, 3.35 per cent in plastic products, 10.43 per cent in finished leather and leather products. The share of non-traditional products declined by 10.83 per cent during 2002-03 over 1992-93.

The commodity groups woollen garments and knitwear registered an increase of 60 per cent, chemicals and allied products 30.65 per cent, marine products 18.58 per cent, processed tobacco, snuff and Bidi 16.04 per cent. Processed foods 5.01 per cent, engineering goods 2.58 per cent. In the traditional sector spices, spices oils, oleoresins have also shown increased share in total exports by 18.78 per cent, cashew kernel, cashew nutshell liquid 14.24 per cent and lac by 2.09 per cent. However, the share of SSI sector exports in total exports has declined by 10.62 per cent during 2002-03 over 1992-93.

The compound annual growth rate for non-traditional product group was 17.2 per cent for exports from SSI sector, while it was 19.84 per cent for total exports.

Where as the compound annual growth rate for traditional goods was 13.64 per cent for exports from SSI sector, the same for total exports was 12.68 per cent.

Exports from SSI sector as a whole recorded a compound annual growth rate of 17.07 per cent against the total exports growth of 19.64 per cent during the post-liberalisation period.

Chapter -V

Problems and Prospects of India's Small Scale Industry Exports

5.1 Introduction: -

The analysis of India's exports from the small-scale industry sector in the preceding chapter suggests that the increase in exports did not record a steady trend. The compound annual growth rate of exports from small-scale industry sector has been marginally high vis-à-vis the total exports from India during 2002-03 over 1992-93. However, the analysis of principal items of small-scale industry export against the total exports of these items present a paradoxical condition. The share of small-scale industry sector export of these products has gone down and the CAGR has also been marginally low in comparison to total exports during the study period.

This chapter, therefore, makes an attempt to find out the factors that affect exports from small-scale industry sector and prevent them from achieving their potential and settling down to a trend. This will also help us to examine the prospects and suggest ways to improve the export prospects.

5.2 Problems of Exports: -

Exports from small-scale industry sector face two sets of problems:

1) External Problems

2) Internal Problems

1) External Problems: -

With the opening up of the Indian economy as a result of economic reforms started in 1991 and also on account of India's membership of WTO, it is anticipated that small-scale industry sector will face challenges that may affect adversely Indian export trade unless they become competitive. The impact of globalisation on SMEs exports as experienced/anticipated is as follows: [1]

a) Due to opening up of world markets from free trade by lowering of tariffs and dismantling of other restrictions in all the participating countries, competition has increased in the world trade and it is becoming difficult to procure export orders to the advantage of small-scale industry sector.

b) Only the traders who are importers and exporters are at an advantage and enjoy benefits from more transparent regime by providing customers better quality goods at competitive prices.

c) When quantitative restrictions on imports are removed by the year 2003 as per commitments the Exim Policy of Government of India may not remain effective. This will seriously impact exports from small-scale industry sector, as the benefits under various schemes available to them will vanish.

d) The agreement on subsidies and counter-vailing measures (SCM) prohibits most of the export subsidies (allows only permissible ones), which are to be phased out by 2003. Duty exemption schemes may vanish and affect exports.

e) Agreement covering product and production methods (PPM) might discriminate against Indian exports for agricultural/food/pharma products and thereby impact exports.

f) The WTO consistency of the income tax exemption has recently been questioned within the WTO Trade Policy Review Mechanism (TPRM) forum. Income tax waiver on export earnings appears to be a temporary measure and India will have to scrap it by 2003. So could be the future of DEPB.

This may have a serious disadvantage for Indian exports in the world markets.

g) Trade Related Intellectual Property Rights (TRIPs) agreements require stricter IPR regime and when existing Acts are amended suitably, it may impact many of the small-scale industry sector depending on sources of technologies for reverse engineering activities or engaged in counterfeit trade/using protected designs or brand names. Only those undertakings having their own R&D could reap the benefits. Software industry covered under copyrights definition and scope will benefit.

h) Other quantitative restrictions imposed by developed countries when phased out by 2005 will provide increased trade opportunities to Indian textiles/garment exporters, besides increased competition in the world market.

i) WTO Agreement on technical barriers to trade (TBT) calls for adoption of international standards. Domestic industry is likely to face tougher product quality standards in the developed market in the wave for standardisation. However, manufacturer exporters of products bearing Bureau of Indian Standards (BIS) may benefits from the agreement on technical barriers to trade.

With the lowering of tariffs, removal of quantitative restrictions and host of other measures in the wake of economic reforms, the degree of protection enjoyed by the small-scale industry sector has considerably narrowed down. Domestic markets are becoming more and more competitive and the exports markets difficult to capture, the small-scale industry sector has to improve its competitiveness.

2) Internal Problems: -

While economic reforms have brought the small-scale industry sector face to face with competition, they have at the same time opened up certain opportunities. However, to what extent it will be able to take advantage of the opportunities depends upon the solution of many inherent weaknesses in the small-scale industry sector. The following are the many inherent weakness in the small-scale industry sector.[2]

a. Obsolete Technology

b. Uncompetitive prices

c. Poor quality

d. Costly credit

e. Weak infrastructure backs up like power, roads, communication, etc.

f. Plethora of labour legislation

g. Lack of cohesion among small-scale industry units

h. Ineffective associations

i. Lack of information

j. Lack of international exposure and sensitivity to the implications of the WTO agreements.

k. Lack standards conforming to international standards.

Now we will take up the important factors that influence the export behaviour and performance of an enterprise. The problems affecting small-scale industry sector export performance are described below:

1) Technological Constraints: -

Technology is the key element contributing to productivity, quality, competitiveness and market acceptability of products. The technology used by small-scale units in India is of low to medium quality. The products of the small-scale industry sector in terms of quality are not comparable to products from foreign countries R&D which are crucial for producing high technology products has not been the focus of the Indian small-scale industry sector.[3] In high technology industries the competitive advantage is determined by the product innovation that is not the focus of Indian small-scale industry sector as they do not invest for in house R&D activities. In such products, life cycle is usually short making it difficult to achieve competitive edge on the basis of limitation. Small-scale industries are therefore, unlikely to achieve competitive advantage on the basis of their own technological activities in such high technology base product lines.[4]

ii) Inadequate Finance and Credit: -

Finance is the lifeblood of any business. Availability of credit plays a very important role in the successful working of any unit. Lack of finance and credit is another factor that inhibits the growth of India's exports from the small-scale industry sector. Inadequate and delayed supply of credit continues to be the main problem faced by the small and medium enterprises.

"The problem is more acute in the case of micro enterprises. Small enterprises lack access to capital market. Investors are unwilling to invest in unquoted companies. Small businesses are perceived to be more risky in many developing countries as a result the cost of credit to small enterprises is high. It is not possible to have credit rating of small-scale industry units because of the cost involved and also establishing the project viability in relation to large-scale units. Assessing of risk and monitoring of small business involve higher cost. In the case of newly emerging hi-tech areas or newly emerging technologies returns are uncertain". [5]

Despite efforts by various agencies and the long-standing recommendations of committees, the credit requirements of units in the small-scale industry sector remain unmet. While long-term credit needs are being substantially addressed, working capital availability continues to be sub-optimal. In an era where the interest regime has been deregulated the benefit of falling rates is not being passed on to small-scale industries.[6]The data show that the amount of loans to small-scale industries has increased in absolute term during 2001 over 1991. However, the proportional allocation is on the decline in recent years and he figures for both 2000 and 2001 have plunged below the 1991. In addition, net proportional investment has shown only a marginal upward trend over the last decade. It seems that while the priority sector status ensured a minimum proportional investment to this sector as institutional requirement, it was either not looked upon as a lucrative option, or procedural and other hassles acted as an impediment.[7]

iii) Infrastructural Bottlenecks: -

It is widely accepted that India's export potential remains considerably unfulfilled because of infrastructure bottlenecks such as power shortages, poor handling facilities, delays in transportation which in turn are due to poor transport links within the country and poor communication facilities. Not only that, the availability of the infrastructure services is inadequate but the efficiency and quality of the delivery of what is available is highly uneven. The ability of the government in removing these constraints in the coming years will also determine the supply side of Indian exports.[8]

Lack of adequate infrastructure, particularly in the field of power supply, communication network and telecommunication facilities affect production, its cost and delivery. Frequent disruption in power supply adversely affects productivity particularly in precision and high technology outputs. Demand for reliable power supply reflects the increasing awareness of small enterprises in maintaining their quality and competitive edge.

Similarly, lack of adequate telecommunication facilities is proving disadvantageous to small-scale industry units in the highly dynamic and hi-tech international market. The demand for better and improved telecommunication facilities reflects the growing appreciation by small units of its relevance. The use of hi-tech application for establishing and nursing market contacts will also lead to cuts in the cost of going global.[9]

iv) Size Constraints: -

The small size of the unit determines the resources of the enterprise that are considered important for venturing in the international markets in view of economies of scale in production and marketing. Exporting may be beyond the capacity of too small enterprises. 'Since over 98 per cent of small-scale industry units are tiny or micro enterprises; they are traditional or local technology called backward or inappropriate and this affects the productivity, quality and competitiveness of the products.'[10]This affects their export capacity. Similarly other small-scale industries enjoying captive access to protected domestic markets due to reservations in exclusive manufacture or preferential government purchases, may not enter into the export markets.[11]

v) Inability to Undertake Promotional Activities: -

Enterprises undertaking advertising and promotional activities perform better than others in the international markets because of their conscious building of brand images and trade names and to maintain quality as well as satisfactory after sales services. Due to lack of resources for competing with multinationals in the international market, many of small-scale industries sell their products to trading agencies or merchant exporters to avoid international competition. Similarly, it is difficult for small-scale industries to establish their own marketing channels in foreign countries or to establish formal links with marketing companies to promote exports.[12]

vi) Managerial Capabilities: -

Many small units are one man or family businesses and tend to centralise decision-making in one or two persons. For them, a decision to go into exports requires modifications in terms of management, marketing organisation, production and finance. The manager of the SSI has therefore to tackle these issues even before the full range of external problems unfolds when export markets are explored. Since they lack managerial and technical skills, it becomes difficult for them to handle all these problems of exports.[13]

vii) Marketing Constraint: -

Marketing remains the most problematic area for the SSI sector. Lack of proper and adequate marketing facilities is one of the problems that hinder the exports of small-scale industries sector. 'Enterprises having formal links with marketing companies in other countries do have sustained exports and are better placed in those markets as they have access to latest information through the marketing network of those foreign companies.'[14]

The main problems being faced currently by small scale industries sector in the different industry segments in exporting their products and which need to be addressed are enumerated as under: [15]

1. Transporting of goods by road and rail is not only expensive, but is also extremely slow which comes in the way of non-execution of urgent export orders. Railway wagons are not available for piecemeal loading for movement of export cargo to seaports and for transportation of raw materials to the sites of the factories.

2. The turnaround time for a ship docking averages more than seven days hindering the shipping out of goods at a very short notice. Shipping restrictions (in loading and stuffing of containers) by port authorities on synthetic enamel paints and primers, though not hazardous cargo, affect exports.

3. Multiplicity of indirect taxes and complex documentation formalities put exporters at a great disadvantage.

4. Cost of export finance is very high in India as compared to that in other countries.

5. Production costs become high and competitiveness is lost when labour remains idle during certain periods/seasons and industry cannot remove workers due to labour laws implications.

6. Industry wise duty drawbacks rates are fixed without considering the actual incidence of duties as per data furnished by the exporters in certain cases thereby causing loss tc the exporters.

7. For any shortfall in the fulfilment of export obligations or for other purposes, the rate of interest charged is 24 per cent (fixed long back when bank rate was around 22 per cent) affects cost competitiveness.

8. Exports to Nepal in Indian rupee are not given all export benefits as permissible to exports against free foreign exchange and land customs stations like Bhairahawa, Jogbani and Raxual are not eligible for facilities under DEBP as these ports/land customs stations do not appear in the list of DGFT.

9. Exporters face problems in procuring export licences in time for high-grade iron ore fines.

10. Delays occurring in procurement of natural rubber through STC under advance licensing scheme affect export of rubber goods.

11. The high cost of petroleum fuel tends to hike production costs of glass and ceramic products rendering them as non-competitive.

12. Outdated machinery in textiles and garments industry affects quality, productivity and finally exports.

13. Software exports of on site services in USA face difficulties due to visa restrictions; while to other countries get hindered due to non-availability of computer professionals having knowledge of respective country languages.

14. Software exports of off-site services also have a setback as satellite channels suffer from unreliable terrestrial telecommunication links and also rates are very high.

5.3 Export Prospects: -

The initiation of economic reforms and the formation of WTO have brought the small scale industry sector face to face with competition, at the same time they have provided certain opportunities in the form of increased market access to world market, impetus to quality, efficiency and better technology, increased availability of raw materials and components. However, the benefits of globalisation can be reaped provided that the problems of exports as cited above are removed and efforts are made to take full advantage of the opportunities that exist.

The opportunities in the small-scale sector are enormous due to the following factors: [16]

1. Less capital intensive.
2. Extensive promotion and support by Government.
3. Reservation for exclusive manufacture by small-scale Sector.
4. Funding-finance and subsidies.
5. Machinery procurement.
6. Raw material procurement.
7. Manpower training.
8. Technical and managerial skills.
9. Tooling and testing support.

10. Reservation for exclusive purchase by Government.
11. Export promotion.
12. Growth in demand in the domestic market size due to overall economic growth.
13. Increasing export potential for Indian products.
14. Growth in requirements for ancillary units due to the increase in number of Greenfield units coming up in the large-scale sector.
15. Availability of labour at reasonable cost.

The small-scale industry sector in India now produces a wide range of products varying form very simple traditional consumer goods to highly sophisticated hi-tech consumer products. There are many areas in which India has comparative advantage and can make a place in the international market. These sectors are: Engineering goods, Chemicals and allied Products, Processed foods, Marine Products, Ready-made Garments, Electronic and Computer Software, Finished Leather and Leather Products, Woollen Garments, and Knitwear, Processed Tobacco and Snuff and Bidi, Spices, and many more.

The prospects for export from SSI sector will, however, be dependent upon several factors. Some of the important factors are dealt below;

1) Technology Up-gradation and Modernisation: -

Technology up-gradation is key to survival in present day world of globalisation and liberalisation. It is the key for industrial growth. The experience of developed countries has conclusively proved that the technology plays a vital role in rapid economic and social developments.

One of the major problems faced by the small-scale industry units is technological obsolescence, use of outdated plant and machinery, equipment etc. Technology up-gradation is the need of the hour. The SSI sector must upgrade their technology and adopt new technologies, which may involve the changes in the manufacturing process, introduction of new tools and techniques for production, and use of modern management and information technology. The Government should provide financial assistance to the small-scale industry units for technology up-gradation and modernisation.

However, the role of government in this direction is appreciable. Government supports small-scale industry units through its different bodies at central, state and district level. The SIDO plays a pioneering role in the field of technological development. The Government is providing support to small-scale industry through tool rooms, product cum process development centres, testing centres and central footwear training centres (CFTCs). Tool Rooms have been set up with the objective of assisting small-scale industry units in technological up-gradation by providing quality tooling facilities, consultancy and common service facilities, in the areas of design and production of tools, fixtures moulds and dies etc, conducts long-term training courses in tool and die making, machining and fitting. PPDCs have been set up to look into specific problems of an industry, develop new technologies, render technical support services to small-scale industry engaged in the production of different products including export worthy products are provided by the Regional Testing Centres. These centres provide performance testing, type testing acceptance testing, calibration services and development of process for various products. CFTCs extend support to small-scale industries by training of manpower in leather and footwear products. CFTCs at Agra and Chennai have undergone modernisation with UNDP assistance.

The SIDBI had set up a Technology Development and Modernisation Fund (TDMF) scheme in April 1995 with a corpus of Rs. 200 crore for direct assistance of small-scale industries to encourage existing industrial units in this sector, to modernise their production facilities and adopt improved and updated technology so as to strengthen their export capabilities. Assistance under the scheme is available for meeting the expenditure on purchase of capital equipment, acquisition of technical know how, up-gradation of process technology and products with thrust on quality improvement in packaging and acquisition of ISO 9000 series certification.

2) Credit Facilities: -

Lack of finance and credit is one of the important factors that inhibit the growth of India's exports from the small-scale industry sector. The timely availability of adequate credit is the prime requirement of any economic unit so as the export oriented small-scale industry units. Credit should be affordable and adequate. The Government has set up various committees to see the situation of credit availability of small-scale industry sector after economic reforms of 1991. The Nayak Committee and the high-powered Kapur Committee had given many recommendations to improve the situation of small-scale industry credit. The major policy initiative was the setting up of Small Industries Development Bank of India (SIDBI) in 1990 as principal financial institution. SIDBI acts as an apex bank for priority re-financing of small loans to meet the credit requirement through various schemes. SIDBI has diversified and increased its operations. Today, small entrepreneurs can avail credit facility not only for initial investment and working capital, but also for modernisation and expansion of their enterprises.

Another major policy changes relating to small-scale industry credit were announced in the Budget 2000-01 to improve the flow of credit based on the Kapur Committee recommendations specialised bank branches for small-scale industry lending have been set up. To reduce the cost of credit in the Small and Medium Enterprise (SME) sector, the finance Minister announced creation of an SME fund of Rs. 2000 crore in January 2004.

Small-scale industry units should get access to capital market for their finance. There is need for popularising alternative source of financing such as venture capital, lease financing, equity financing and the like. The SIDBI has made a beginning by setting up venture capital fund. Creation of separate credit rating agencies to apprise the credit worthiness of small enterprises. This will enhance the confidence level of the banks in small loaning who find this segment as risky due to greater and higher NPAs.

3) Removal of Infrastructural and Production Bottlenecks: -

Lack of adequate infrastructure, particularly in the field of power supply, communication network and the telecommunication facilities affect product, its cost and delivery. Since export is largely function of production. Constraints on this front should be removed. The immediate needs are to ensure adequate supply of raw material and essential inputs to exporting units at international prices. Infrastructure facilities must be improved particularly in sectors like transport and power supply. The Central as well as the State Governments have devised various schemes for the development of infrastructure to encourage the growth of small-scale industries. The main schemes of the government of India cover the industrial estates and growth centres. The creation of industrial areas and development of plots and industrial sheds for allotment to the small-scale industry entrepreneurs was initiated in 1955. The objective has been to attract entrepreneurs to set up small industries or to shift existing units to industrial areas provided with infrastructure facilities like water supply, electricity, developed roads, banks, canteens water and ward, communication facilities etc. The other aim for creation of industrial estates was to achieve decentralised development in rural areas, develop sub-contracting relationship and establish common facility centres.

From the experience obtained from industrial estates programmes, it was realised that in addition to industrial development, there must be a provision for supporting facilities; social overheads and suitable environment to achieve dispersed industrial growth. It was decided to adopt a selective approach and identify such areas where some economic and industrial activity is visible, and strengthening of existing infrastructure facilities can trigger off the process of increased industrial activity. Accordingly a growth centre approach was envisaged. Special incentives for companies to undertake manufacturing of export items have been provided by the Government of India through the establishment of Export Processing Zones or through 100 per cent Export-Oriented Units set up outside the EPZs. EPZs are special areas designated for providing export production or the processing of manufactured products at a low cost. Each EPZ provided basic infrastructural facilities at reduced rates and other incentives like developed land sites, standard designed factory buildings, roads, power, water and drainage. Other provisions included banking, post offices and custom clearing agents

However, these programmes and schemes did not solve the problem of infrastructure altogether. There is still to do more in this area. The ability of the government in removing these constraints in the coming years will also determine the exports from the small-scale industry sector. The integrated infrastructure development scheme launched by small industries development organisation and the newly created infrastructure development scheme in 2003-04 is to take care of the problem to some extent. There are many other things as well what would be required to be undertaken for developing infrastructure and strengthening the existing infrastructural set up.

4) Marketing and Promotional Activities: -

The marketing infrastructure, as available for small-scale industries, consists of a combination of agencies and incentive schemes. NSIC registers small-scale industries and Tiny Units under a single point registration scheme and secures orders for the supply of various stores. There are 34 sub-contracting exchanges that operate through the small industries service institutes (SISIs). These exchanges enlist small-scale industries and identify items for ancillarisation from various public sector undertakings. These offices promote contacts between large and medium scale industries on the one hand and small-scale industry ancillary units on the other to secure sub-contracting jobs.

The Bureau of Indian Standards has been developing standards for different manufactured products and it registers small-scale industries for the adoption of quality standards as a measure of marketing support. For promoting exports, SIDO annually participate in selected international trade fairs and exhibitions held abroad by the India Trade Promotion Organisation. All the expenses on space charges, display, shipment, insurance, handling and clearance, publicity, etc. are borne by the SIDO. The Export Promotion Councils (EPCs) for specific industries provide the small-scale industry member units with a platform for export marketing. A number of EPCs are providing marketing infrastructure through procurement of direct orders and distribution of items among member units for production and sale. These councils also arrange for quality testing of products, pre-shipment inspection, and packaging and sales transaction assistance and arrange for the participation of number units in various exhibitions and Trade Fairs. Further, SIDBI established its marketing finance and development department in 1996 to focus attention on marketing related activities undertaken by the small-scale industry sector. SIDBI provides assistance for tangible marketing activities like setting up of show rooms, warehouse, and organising trade fairs/exhibitions both in India and abroad and permanent exhibition centres. The finance for meeting intangible expenses of small-scale industry sector such as cataloguing, advertising, branding and participation in trade fair and exhibition in also provided by SIDBI.

In this fast changing economic environment, access to latest information on market demand supply, technology is key to survival and success. Creating infrastructure for information network is costly affair requiring Government intervention. The small-scale industry sector generally experiences a lack of resources for sales promotion and advertising. Marketing of small-scale industry products is an important assistance to the sector. Adopting consortium approach could best solve the marketing problems of the small-scale industry sector as most of the units are very small and so is their output individually. Besides finance for marketing related activities, dissemination of requisite information on demand pattern, futuristic trend etc. could be made available by the development institutions. Packaging plays a very important role in the present day marketing, especially the export marketing. That is why it has been called a silent salesman. Packaging technology has undergone vast changes in recent years, which is based on the recognition that each item needs special attention on account of its nature; volume content, purpose and the packaging must be cost effective and environment friendly. SIDO, in partnership with the Indian Institute of Packaging, organises training programmes for small-scale industries exporters on packaging for exports.

5) Promotion of Research and Development Activity: -

The failure to diversify the export structure in favour of technologically more demanding products has been due to relatively less R&D activity by the Indian industry, among other factors. The R&D activity strengthens the international competitiveness of an enterprise with productivity improvements and product innovation.

The small-scale industry sector lacks focus in this aspect of diversification. In order to step up its exports, it is therefore, important for the small-scale sector to undertake research and development and focus on technology based products. The government needs to review, strengthen and consolidate the incentive structure for R&D activity in the country.

6) Improving Quality and Building Indigenous Brand: -

Improvement in quality enhances international competitiveness. Since small-scale use mostly obsolete technology and out-dated machinery for producing goods that affects the quality of product. So Government should pay attention to technology up-gradation. It should create quality awareness' among small-scale industry units conforming to international standards. Also create facilities for promoting registration of international quality standards. The Government encourages production of quality goods through National Quality Awards and incentives for ISO 9000 certification. But this is not sufficient Government needs to do more in this direction.

The consumer abroad expects a level of quality and standard, which ought to be maintained by the small-scale industry units. These units have to constantly observe and adjust to the changing needs and tastes of the consumer abroad with proper marketing strategy. Moreover the importance of building indigenous brands through advertisement in the global media for international competitiveness is not less important. The particular brand allows realisation of value addition fully. The industry building their own indigenous brands could be assisted through funding of brand promotion expenses and incentives given to products sold under indigenous brand name.

7) Promotion of Industrial Clusters: -

It is estimated that 60 per cent of the exports of SSEs emerge from industrial clusters. Hence massive programme needs to be launched to modernise export oriented industrial clusters. Small-scale industries functioning in cluster formations derive their strength through a unique state of togetherness and also benefit from backward and forward economic linkages. Clusters encourage specialization in manufacturing processes; inter firm relationships in production activities division of labour, sharing of information. Such an atmosphere provides productivity gains on a continued basis and develops a network of sub-contracting between firms. Common facilities like up-gradation of technology, demonstration projects, capacity building, strengthening associations, effective credit delivery and brand building activities may be built around industrial clusters. Clusters have the advantage of economics of scale and are capable of improving the quality and cost to suit global needs.

As a matter of fact, spontaneous growth of over 300 clusters has already taken place in the country mostly unaided by the state. This growth has been fuelled by access to domestic and international markets and cheap labour. However, further progress in clusters is hamstrung by decrepit infrastructure, environmental degradation, technological obsolescence and meagre skills of the workforce. Worldwide experience confirms that growth in clusters can be facilitated by institutional development, and aided by the abundant provision of services and infrastructure development by the Government or non-government organisations.

SIDO has established technical support services through Product cum Process Development Centres (PPDCs) to assist select clusters of small-scale industry units for different specialised product lines.

8) Removal of Procedural Hassles: -

Plethora of laws, rules and regulations has been found as major hurdle in the smooth development of small-scale industries in India. There are various laws like labour laws, factory act, fiscal act, municipal acts, environmental acts and inspectors who visit the small-scale industry units and thus lead to great deal of harassment, delay, obstruction to work and increase in cost of production due to occasional payment. Several returns are required to be filed by the small enterprises, which hamper the work since small-scale industry units are mostly managed by one person.

Streamlining rules and regulations, bringing harmony in their implementation and reducing the hassles is the urgent need.

5.4 Conclusion: -

The small-scale industry sector faces both internal and external problems in exporting its products. Technological constraints, inadequate finance and credit, infrastructural bottleneck, inability to undertake promotional activities and size constraints etc. are some of the important internal factors that affect exports adversely. The external problems arising out of reduced protection due to removal of quantitative restrictions, lowering of tariff and other WTO related measures posed many challenges before the small-scale industry sector. It increased competition both internally and internationally.

Adequate supply of credit, technology assistance, infrastructure and low transaction costs are the important things for the promotion of small-scale industries. This can be achieved by developing a variety of linkages between enterprises and their support institutions, partnerships between the private sector and the government, greater information flows and by streamlining the legal and institutional framework.

Prospects of exports from small-scale sector in India will therefore lie in solving the problems related to the technology up-gradation, credit facilities, infrastructure bottlenecks, marketing and quality improvement. The effort should be to take fullest advantage of the opportunities made available by WTO and globalisation. The guiding principle of the future course of small-scale industry development should be their accelerated growth and competitiveness. Therefore, small-scale industries should improve their quality of product and competitiveness.

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Chapter -VI

Conclusion

We are now in a position to summarize the main findings of our study. The study shows that small-scale industry sector is an important segment of the Indian economy. In the last five decades the sector has made significant contribution in the process of growth and has emerged as a vibrant sector by continuously outperforming the overall industry sector. Currently, the sector occupies a significant share in total exports of the country.

The small-scale industry sector has achieved a reasonable growth in terms of broad characteristics like the number of units, production, employment, and exports. Production of this sector has increased steadily over the period of 1991-92 to 2002-03. It increased to Rs. 742021 crore in 2002-03 from Rs. 178699 crore in 1991-92, registering a compound annual growth rate of 13.82 per cent. The number of small-scale units was 20.82 lakh in 1991-92, which rose to 35.72 lakh in 2002-03 recording a compound annual growth rate of 5.03 per cent. Employment in the sector was 129.80 lakh persons in 1991-92, which grew to 199.65 lakh persons in

2002-03 registering a compound growth rate of 3.99 per cent per annum.

The analysis of export performance of the aggregate level suggests that the small-scale industry exports increased at a compound growth rate of 18.03 per cent per annum for the period 1991-92 to 2002-03. As against this the overall exports from India increased at a compound growth rate of 17.32 per cent per annum during the same period. Consequently, the share of small-scale industry in total exports from India increased from 31.5 per cent in 1991-92 to 33.7 per cent in 2002-03. This is also true when we compare the annual average growth rate of small-scale industry sector exports vis-à-vis the total exports from India during 1991-92 to 2002-03. Total exports increased at an annual average growth rate of 17.7 per cent whereas small-scale industry sector exports grew at the rate of 18.6 per cent during the same period.

Thus, the rate of growth for total exports during the period of study was marginally lower than the small-scale industry sector export. But one of the disturbing features of the small-scale industry sector export was that the share of the sector in total exports remained stagnant hovering between 32 to 36 per cent during the study period. The share averaged at 34.1 per cent during the period of study.

The analysis of composition of small-scale industry sector reveals that non-traditional goods exports contributed more to the total small-scale industry sector exports than the traditional goods exports. The share of non-traditional goods in total small-scale industry sector exports was 95.67 per cent in 1991-92, which rose to 96.94 per cent in 2002-03. Moreover, within the small-scale industry sector six items alone accounted for almost 83 per cent of total exports in 2002-03.

During the post-liberalisation period i.e. after 1991 in India, the share of small scale industry sector in total exports of basic chemicals, pharmaceutical and cosmetics, plastic products, finished leather and leather products, declined by 10.49, 3.35 and 10.43 per cent respectively. Within non-traditional product group the share of small scale industry sector in total exports of woollen garments and knitwear, chemicals and allied products, marine products, processed tobacco, snuff and bidi, processed food and engineering goods increased by 60, 30.65, 18.58, 16.04, 5.01 and 2.58 per cent respectively during 2002-03 over 1992-93. In traditional segment, the share of small scale industry sector exports in total exports of spices, spices oils, oleoresins, cashew kernel and cashew nutshell liquid and lac increased by 18.78, 14.24, and 2.09 per cent respectively during the same period.

The share of small-scale industry sector exports of non-traditional product group, in total exports of this product group declined by 10.83 per cent during 1992-93 to 2002-03. It was 54.17 per cent in 1992-93, which declined to 43.34 per cent in 2002-03.

Consequently, the share of small-scale industry sector exports in total exports of principal commodities has declined by 10.62 per cent during 2002-03 over 1992-93. This was 54.44 per cent in 1992-93, which declined to 43.82 per cent in 2002-03.

Exports from small-scale industry sector of selected principal commodities registered a compound growth rate of 17.07 per cent per annum against the total exports growth of these commodities at 19.64 per cent per annum during the period of study.

Though at aggregate level the small-scale industry sector exports performed well in comparison to the total exports from India. However, the analysis of principal commodity exports from the small-scale industry sector vis-à-vis total exports has not done well during the post-liberalisation period. This happened due to the problems which small-scale industry sector faces. The main problems of small-scale industry exports are as follows: -

i) Use of low level of technology

ii) Inadequate credit facilities

iii) Infrastructural bottlenecks

iv) Lack of promotional activities

v) Marketing problems

vi) Managerial constraints

vii) Size constraints

viii) WTO related problems

However, this is not true that, the small-scale industry sector suffers from weaknesses only it has inherent strengths too. It can face the challenges cropped up in the new economic framework. Small-scale industrial units unlike the big units having hierarchical management and separation of ownership are inherently flexible to react quickly to market signals and changing taste pattern. This makes the small units more innovative and open to new ideas. Small-scale industrial units have lower overheads, which help them to reduce the cost of production. In addition, these units also interact more closely with their customers to be in touch with changing taste and preferences.

The small-scale industry sector produces a wide range of products from simple consumer goods to sophisticated and hi-tech products. There are items in which the sector can make mark in the world market. They are engineering goods, readymade garments, basic chemicals, pharmaceuticals and cosmetics, plastic products, processed foods, leather products, electronic goods, marine products etc.

Taking following measures can expand exports from the small-scale industry sector:

- Technology up-gradation and modernisation

- Expansion of credit facilities
- Removal of Infrastructural and production bottlenecks
- Marketing and promotional activities
- Promotion of research and development
- Improvement in quality of product and brand building
- Promotion of agglomeration and industrial clusters
- Removal of procedural hassles

In brief, we may conclude that future prospects for exports from small-scale industry sector will depend upon the competitiveness of this sector in the world market. The sector has to improve quality of its product up to the global standards and reduce the cost of production by enhancing the productivity with use of modern technology. Small-scale industry sector has to adopt aggressive sales and marketing techniques for making a place in the world export market.

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Appendix

APPENDIX - I

Pattern of Principal Items of Small-Scale Industry Exports of India: 1992-93 to 2002-03

(Rs. Crore)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
A. Non -Traditional											
1. Engineering Goods	1950	2065	2325	3025	3390	4400	4815	5420	7631.2	8302.94	12500
2. Basic Chemicals, Pharmaceutical & Cosmetics	1992.8	2432.8	2676.1	3002.5	4331.2	6502	3427	6147.04	7696.2	8037.17	9659
3. Chemicals & Allied Products	119	174.4	237.6	250	353.4	480	484.88	515.46	530.4	426.12	3355
4. Plastic Products	175.4	267	356.1	265	714.6	985	957.07	982.34	1700	1882.25	1863
5. Finished Leather &Leather Products	2954	3311.5	4400.5	4910.5	3200	3262.6	3438.46	3592.1	4683.6	5715.8	6108
6. Marine Products	506.8	609.6	664.5	624.3	953	2692.1	1204.55	2260.97	2702.2	2617.41	3251
7. Processed Foods	840.4	1716	1761.7	5455.8	4868.6	4620.2	6253.12	4392.06	6215.2	6896.35	9680
8. Woollen Garments & Knitwear	208.1	300.2	319.8	896.1	863.4	1353.1	1589.86	2006.76	2696.6	2344.4	1225
9. Sports Goods	93.6	132.2	179.9	207.5	217.5	240.7	247.8	230.9	250.4	275.66	317
10. Ready-made Garments	7956.7	11771.3	13240.4	14506.5	16729.2	16550.6	22209	21584.7	26626.9	24893.45	23404
11. Rayon & Synthetic Products	15.7	1163.3	1417	1686.2	1613.3	1365.4	720.15	883.36	1263	1303.59	1484
12. Processed Tobacco & Snuff and Bidi	240.1	193.7	111.8	237.6	520.3	358.4	543.52	734.46	635.6	560.83	675
13. Electronic & Computer Software	-	-	-	-	-	-	NA	1298	3670.5	5624.35	9860
Total of A	**17052.6**	**24137**	**27690.4**	**35067**	**37754.5**	**42810.1**	**45890.41**	**50048.15**	**66301**	**68880.32**	**83382**

(Continued)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
B. Traditional Products											
1. Cashew Kernel & Cashew Nutshell liquid	642.5	1027.6	1244.3	1230.2	1283	1426.8	1613.06	2453.29	1876.5	1628.05	2015
2. Lac	51.5	88.6	72.8	98.7	92.9	64.4	69.25	79.03	130.9	140.87	101
3. Spices, Spices oils, Oleoresins	38.2	54	60.7	74.3	118	140.8	1406.41	1620	1487.3	594.75	515
Total of B	**732.2**	**1170.2**	**1377.8**	**1403.2**	**1493.9**	**1632**	**3088.72**	**4152.32**	**3494.7**	**2363.67**	**2630**
Grand Total (A+B)	**17784.8**	**25307.2**	**29068.2**	**36470.2**	**39248.4**	**44442.1**	**48979.13**	**54200.47**	**69796.5**	**71243.99**	**86013**

Source: - 1. SIDBI Report on small-scale industries sector 2001, Small Industries Development Bank of India, 2002, Lucknow, Appendix 2.19, p. 258, for the year 1992-93 To 1997-98 data

2. http://www.smallindustryindia.com/publications/books/laghu/ch11.pdf accessed February 1, 2005 for the year 1998-99 to 2001-02data
3. Prasad, C.S., Small and Medium Enterprises in Global Perspective, New Century Publication, New Delhi, 2004, Table 9.4, p. 206, for the year 2002-03 data
4. Office of the Development Commissioner, Small-Scale Industry, Govt. of India, Nirman Bhawan, New Delhi

APPENDIX - II

Total Exports in Non-Traditional And Traditional Products: 1992-93 to 2002-03

(Rs. Crore)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
A. Non -Traditional											
1. Engineering Goods	6450	8795	9825	12595	14879	16375.7	16822.28	19980	27450.5	28680.28	38093
2. Basic Chemicals, Pharmaceutical & Cosmetics	3623.2	4423.2	5352.3	7970.3	9498.3	10838	11797	13826	17294.9	18060.06	21701
3. Chemicals & Allied Products	4229.4	5290.6	6127.9	7458.1	7960	8574	8320	9448.2	11531.5	12174.96	10027
4. Plastic Products	389.6	814.8	668.1	1662.4	2024.1	2338.8	2141.2	2570.24	4079.7	4517.04	4470
5. Finished Leather &Leather Products	3692.4	4139.3	4889.4	5762.1	5517.2	5874.8	6955.77	6829.75	8837	9041.13	8780
6. Marine Products	1767.4	2503.6	3575.3	3501.1	4121.4	4697.5	4626.87	5116.67	6358.5	5781.78	6881
7. Processed Foods	1293	2860	2936.1	7932	7490.1	7108	9620.19	6757.02	9561.8	10609.77	13828
8. Woollen Garments & Knitwear	594.7	802.1	985.4	1145.7	1684.4	1948.3	1870.42	2110.3	2838.5	2467.79	1289
9. Sports Goods	93.6	132.2	179.9	207.5	217.5	240.7	247.8	230.9	250.4	275.66	317
10. Ready-made Garments	8840.8	12390.3	13937.3	14806.5	16729.2	18389.6	22209	23983	29585.4	27659.39	26005
11. Rayon & Synthetic Products	-	1846.9	2485.9	3122.7	3226.6	3750.1	4068.35	4922	6647.6	6860.99	7811
12. Processed Tobacco & Snuff and Bidi	507.7	485.7	267.8	421	826.5	1061.8	806.19	1050.22	906.3	842.22	1066
13. Electronic & Computer Software	-	-	-	-	-	-	-	24025	39006.9	42868.58	52100
Total of A	**31481.8**	**44483.7**	**51230.4**	**66584.4**	**74174.3**	**81197.3**	**89485.07**	**120849.3**	**164349**	**169839.7**	**192369**

(Continued)

S. No. / Product Group	Years										
	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03
B. Traditional Products											
1. Cashew Kernel & Cashew Nutshell liquid	749.2	1027.6	1244.3	1230.2	1283	1426.8	1613.16	2453.29	1876.5	1628.05	2015
2. Lac	52.6	88.6	72.8	99.7	93.8	65.1	69.95	79.83	130.9	140.87	101
3. Spices, Spices oils, Oleoresins	382.1	540.1	607.3	743.4	1180	1408.3	1758	2025	1859.2	1701.73	1790
Total of B	**1183.9**	**1656.3**	**1924.4**	**2073.3**	**2556.8**	**2900.2**	**3441.11**	**4558.12**	**3866.6**	**3470.65**	**3905**
Grand Total (A+B)	**32665.7**	**46140**	**53154.8**	**68657.7**	**76731.1**	**84097.5**	**92926.18**	**125407.4**	**168215.6**	**173310.3**	**196275**

Source: - 1. SIDBI Report on small-scale industries sector 2001, Small Industries Development Bank of India, 2002, Lucknow, Appendix 2.18, p. 257, for the year 1992-93 To 1997-98 data

2. http://www.smallindustryindia.com/publications/books/laghu/ch11.pdf accessed February 1, 2005 for the year 1998-99 to 2001-02data
3. Prasad, C.S., Small and Medium Enterprises in Global Perspective, New Century Publication, New Delhi, 2004, Table 9.4, p. 206, for the year 2002-03 data
4. Office of the Development Commissioner, Small-Scale Industry, Govt. of India, Nirman Bhawan, New Delhi